8(d)

Cabinet

Minutes of a meeting held at County Hall,
Colliton Park, Dorchester on 2 February 2015.

Present:
Robert Gould (Chairman)
Robin Cook, Toni Coombs, Peter Finney, Jill Haynes, Colin Jamieson and Rebecca Knox.

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

Members attending:
Janet Dover, County Councillor for Colehill and Stapehill
Paul Kimber, County Councillor for Portland Tophill

Officers Attending: Richard Bates (Chief Financial Officer), Nicky Cleave (Assistant Director of Public Health), Catherine Driscoll (Director for Adult and Community Services), Patrick Ellis (Assistant Chief Executive), Mike Harries (Director for Environment and the Economy), Jonathan Mair (Monitoring Officer), 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), Michael Ford (Policy and Project Manager), Sam Fox-Adams (Head of Policy, Partnerships and Communications), Jim McManus (Chief Accountant), Patrick Myers (Head of Business Development), Phil Rook (Group Finance Manager – Adult and Community Services) and Peter Scarlett (Estate and Assets Service 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: **6 February 2015**.

(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 **25 February 2015**.

(4) **RECOMMENDED** in this type denotes that the approval of the County Council is required.)

Cabinet Arrangements

20.1 The Leader of the Council welcomed Councillor Robin Cook to his first meeting of the Cabinet in his new role as the Cabinet Member for Corporate Development. The Leader also summarised recent changes to Cabinet portfolios to make them more reflective of work on Forward Together and so that they were in line with a One Council approach, as detailed below:

Peter Finney (Vice-Chairman) - Deputy Leader and Cabinet Member for Environment
Robin Cook - Cabinet Member for Corporate Development
Toni Coombs - Cabinet Member for Children and Young People
Jill Haynes - Cabinet Member for Adult Social Care
Colin Jamieson - Cabinet Member for Economy and Growth
Rebecca Knox - Cabinet Member for Communities, Health and Wellbeing

20.2 The Leader then clarified that no member of the Cabinet had been removed, and thanked all for their work in previous roles. In particular he thanked Councillor Mrs Toni Coombs for her previous role in relation to communications and wished her well in her future role serving the full spectrum of children and young people.

Apology for Absence

21. An apology for absence was received from Debbie Ward (Chief Executive).

Code of Conduct

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

Minutes

23. The minutes of the meeting held on 14 January 2015 were confirmed and signed.

Public Participation

Public Speaking

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

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

Petitions

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

Draft Cabinet Forward Plan

25.1 The Cabinet considered the Draft 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 on or following the Cabinet meeting on 25 February 2015. The draft plan was published on 27 January 2015.

25.2 It was recognised that the list of Cabinet members on the Plan would need to be updated. It was also acknowledged that a report in relation to new branding guidelines would be included on the agenda for the next meeting of the Cabinet.

Resolved

26. That the Forward Plan be updated following the comments outlined in the minute above.

Forward Together Update

27.1 The Cabinet considered a report by the Leader of the Council on the progress being made through the Forward Together Programme across the Council.

27.2 Concern was expressed in relation to the progress on the introduction of smarter computing. The Assistant Chief Executive acknowledged concerns and frustrations about the timescales for delivery of smarter computing and SharePoint, as fundamental systems to the future of the Council, which were under weekly review to address governance under the Way we Work Programme and to monitor progress to ensure realistic delivery. It was also noted that the Cabinet Member for Children and Young People was receiving regular updates on the progress on smarter computing, which was looking at the use of cloud computing to enable quicker availability of SharePoint. The Leader highlighted that a clear plan of delivery with timescales was needed to rebuild confidence in the programme.

27.3 Further to previous consideration of the communications strategy of Forward Together, it was recognised that it was really important that all members of the Council should receive regular updates on the whole programme. A member seminar would also be held following the County Council meeting on 12 February 2015.

27.4 Members suggested that the language and format of future reports should be improved to make information more accessible electronically and to be written in plain English. A request was also made for Cabinet members to put forward additional actions on a regular basis rather than receiving reports to note.

Resolved

28.1 That the progress of the Forward Together Programme be noted.

28.2 That a clear plan of delivery with timescales of smarter computing and SharePoint be included in future reports.

28.3 That communications in relation to the programme be enhanced regarding updates for all members of the Council.

28.4 That the language and format of reports be updated to improve accessibility.

The County Council's Budget and Precept for 2015/16

29. The Cabinet considered the following reports in relation to the County Council's Budget and precept for 2015/16 to 2017/18:

Medium Term Financial Strategy 2015/16 to 2017/18

30.1 The Cabinet considered a report by the Leader of the Council as the final update on the major national and local issues facing the County Council and how they affected the 2015/16 budget and financial planning for the next three years.

30.2 It was noted that the Cabinet had agreed on 17 December 2014 the basis on which further development of the budget for 2015/16 and the financial plan for the following years should continue, subject to clarification of the detail in the Local Government Finance Settlement. A further update was provided for Cabinet on 14 January 2015 to clarify the settlement's impact on the authority. The Forward Together savings targets and budget strategy were largely unaffected by the settlement.

30.3 In relation to Forward Together, it was reported that the budget for 2015/16 would require £15.3M of savings, whilst in subsequent years there would be a need for savings of £12.2M in 2016/17 and £11.1M in 2017/18. This illustrated the significant financial challenge still facing the Council in the coming years, which needed to be recognised in terms of risk and the need to provide detailed monitoring. The impact of the General Election in May 2015 was mentioned as an influential factor in future finances for Local Government, but nevertheless the financial climate was unlikely to change. It was also confirmed that the Council's balances would be at the lower end of the operating range.

30.4 The Leader summarised the content of the report drawing attention to the continued assumption of Council Tax increases of 1.99% for each year of the Strategy, which was subject to change. A particular issue was raised in relation to the need for the Council to be able to develop the long term goal to increase the proportion of its revenue budget locally rather than be ever dependent on Government. Attention was also drawn to efforts to address structural deficits over the next few years to eradicate habitual overspends.

30.5 The County Councillor for Colehill and Stapehill addressed the Cabinet to ask about projected savings of £20k for Trading Standards and £80k for Libraries. The Director for Adult and Community Services confirmed that the savings in relation to both services related to greater efficiency of the services and would not impact on current staffing arrangements or provision of the services to the public.

30.6 The Cabinet discussed the continuation of the Members' Divisional Budgets as the current arrangements had not yet been in place for a full financial year. It was agreed that they should continue for a further financial year and that a comprehensive review, to include all members, would be undertaken to fully assess its effectiveness and the impact on local communities. The Budgets, which comprised £250k (not million as originally shown in the report) would therefore be funded from contingency.

30.7 Concern was expressed in relation to the level of support at £25k to administer Members' Divisional Budgets, to which it was noted that this funding was initially agreed to set up the arrangements and would also be reviewed to keep it to a minimum for future years, if the Budgets continued.

30.8 The Chief Financial Officer confirmed that the final settlement would be received later in the week and any changes would be reported to the County Council meeting on 12 February 2015.

Resolved

31.1 That the risks associated with the structural budget overspend in 2014/15 and that firm plans need to be implemented to eliminate it over the MTFP period be noted.
31.2 That the service issues and risks associated with the savings measures in Appendix 3 of the Leader of the Council's report and the feedback from Overview Committees and other sources concerning these be noted.
31.3 That the impact on the contingency budget as a result of the strategy for balancing the 2014/15 and 2015/16 budgets be noted.
30.4 That the impact of the budget strategy on the authority's balances, as set out in 7.6 of the Leader's report, and the risk around their adequacy to deal with unplanned future expenditure or unachieved savings be noted.
31.5 That the Council Tax increase of 1.99% for 2015/16 and 2% for planning purposes for the remainder of the MTFP period be confirmed.
31.6 That the continuation of Members' Divisional Budgets for a further financial year, and that a comprehensive review be undertaken in 2015/16, be supported.

RECOMMENDED

32.1 That the County Council be recommended to approve (as attached as Annexure 1 to these minutes):
(i) The revenue budget strategy for 2015/16 to 2017/18;
(ii) The budget requirement and precept for 2015/16; and
(iii) The position on general balances and reserves.
32.2 That the Chief Financial Officer present to the County Council a schedule setting out the Council Tax for each category of dwelling and the precepts on each of the Dorset Councils for 2015/16.

Reason for Decisions and Recommendations

33. To approve the Council Tax increase for 2015/16 and to enable work to continue on refining and managing the County Council's budget plan for 2015/16 and beyond.

Treasury Management Strategy Statement and Prudential Indicators for 2015-16

34.1 The Cabinet considered a report by the Leader of the Council on the Treasury Management Strategy Statement and Prudential Indicators for 2015-16, in line with the CIPFA Prudential Code and the CIPFA Treasury Management Code.

34.2 The Leader of the Council introduced the report and highlighted the approach to treasury management and the borrowing policy of the Council, and that updates were routinely reported to the Cabinet through asset management reports. Specific reference was made to the progress of recovering funds from Icelandic banks to date which had exceeded what had originally been anticipated, and that the funds from Landsbanki had been resolved at £100k above what was expected. The success was noted and thanks were passed to all involved in the recovery progress of the funds.

34.3 A comment was made in relation to the format of the report, and that the use of technology could provide an easier way to present information. It was noted that this would be investigated, and a members' training session would be held in the near future on treasury management.

RECOMMENDED

35. That the County Council be recommended to approve (as attached as Annexure 2 to these minutes):

(i) The Prudential Indicators and Limits for 2015/16 to 2017/18;
(ii) The Minimum Revenue Provision (MRP) Statement;
(iii) The Treasury Management Strategy;
(iv) The Investment Strategy; and
(v) Delegation to the Chief Financial Officer to determine the most appropriate means of funding the Capital Programme.

Reasons for Recommendations

36.1 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.

36.2 This report recommended the indicators to be applied by the Council for the financial years 2015/16 to 2017/18. The successful implementation of the code would assist in the objective of developing 'public services fit for the future'.

Corporate Performance Monitoring Report – Second Quarter 2014-15

37.1 The Cabinet considered a report by the Leader of the Council in relation to corporate performance monitoring for the second quarter of 2014-15. The report contained analyses of the Council's progress against its corporate aims and presented the Corporate Balanced Scorecard. Overall, performance against the 52 indicators and measures in the Plan had an average 'green' (on target) rating. The percentage of indicators and measures meeting or exceeding their targets was 56%, with 59% in relation to performance indicators. It was clarified that the title of the report referred to September 2015 to December 2015, but the content referred to the second quarter of 2014/15 from July 2015 until September 2015.

37.2 The Cabinet discussed the timeliness of reporting performance information and requested that information be updated as far as possible when reported to the Cabinet, and that the format of reporting be improved to make it more user friendly. It was reported that work had been commissioned through smarter computing to modernise the balanced scorecard to make it live during meetings and it was hoped that this may be available from the beginning of April 2015. However, it was also highlighted that there were a number of areas which had a delay in the receipt of up to date information, such as Public Health performance data and schools' GCSE attainment data and league tables.

37.3 It was requested that performance information be shown with a differentiation between those that were managed locally and by external sources, and that every effort should be made to show local performance measures as current.

Resolved

38. That efforts be made to update future performance monitoring reports in terms of format and timeliness of information.

The Way We Work - Property Programme

39.1 The Cabinet considered a report by the Leader of the Council on the principles of the Way We Work - Property Programme with a target to deliver £3.2m of revenue savings from property rationalisation under Forward Together.

39.2 The Leader of the Council introduced the report and highlighted that the programme would seek to rationalise the County Council's office estate and also re-align services and the way they were provided so that they were better focused upon local needs through the baseline property portfolio and a corporate landlord approach. It was reported that it was now necessary to accelerate the momentum of property rationalisation to enhance opportunities for new ways of working across the County.

39.3 In terms of financing property rationalisation it would be necessary to introduce reinvestment of up to 75% of capital receipts within the programme, as an exception to the current policy to enable delivery quickly over the next five years. It was noted that it was unusual to deviate from the established policy, and that the change would only apply to capital receipts within the property rationalisation programme.

39.4 A question was asked about the process for deciding whether a project would be delivered in-house or by external organisations. The Director for Environment and the Economy explained that the current model used a mixed economy approach to exploit value for money in projects to achieve the best results, through benchmarked costs from the private sector, and to deliver them to specification.

39.5 The Cabinet acknowledged that the correct balance was required in order to deliver projects in the most timely and effective way. Examples of current baseline designs of school buildings were used to illustrate the current approach to construction projects. The work of the Dorset Development Partnership (DDP) was also highlighted as a key partner with links to private sector development, which had been perceived to be progressing projects slowly, but these were significant and difficult property disposals.

39.6 The Cabinet recognised the need to increase pace in the programme and the use of the DDP. However, it was noted that there was the need to look at the current operating model of the DDP to ensure that it was still fit for purpose, and whether it could be used more proactively through a higher profile in order to accelerate pace.

Resolved

40.1 That the Way We Work - Property Programme be agreed.

40.2 That the principle of ring fencing a proportion of the capital receipts generated from property disposals within the programme be agreed, to enable the necessary investment to be made to adapt the retained estate so it is fit for purpose, subject to any investment being supported by a viable business case.

40.3 That the adaptation of the County Hall work spaces to enable the roll out of flexible working principles as the first part of a county wide programme, be agreed.

Reasons for Decisions
41.1 The Way We Work - Property Programme was anticipated to deliver cost savings of £3.2m under Forward Together. However, in order to transform the property estate, investment was required in the retained estate to make it fit for purpose and multi functional.
41.2 The adaptation of the County Hall work spaces would enable a further 475 staff to be based in the building, which would enable the disposal of a number of other offices in and around Dorchester to generate annual cost savings in excess of £500,000 by March 2021.

Pan Dorset Local Authority Trading Company (LATC) – update

42.1 The Cabinet considered a report by the Cabinet Member for Adult Social Care on the progress to date on the implementation of the Local Authority Trading Company (LATC) following approval, in principle, by the Cabinet on 17 December 2014 of the business case for a pan-Dorset LATC.

42.2 The Cabinet Member for Adult Social Care updated the Cabinet on work to develop governance and operational arrangements including a proposed implementation plan, which included meetings of the cross party LATC Shareholder Group to act as the Shadow Board until July 2015, appointment process for the Chairman and Chief Executive, and to consider the name of the LATC. She also detailed the outcome of the Best Value Public Consultation which closed on the 16 January 2015 on the proposal for a pan-Dorset LATC with Bournemouth Borough Council and the Borough of Poole. The number of responses had increased since the publication of the report from 60 to 109 as at 30 January 2015.

42.3 It was reported that many of the consultation responses did not challenge the best value of the proposal, but instead interpreted the consultation to refer to the privatisation of current services or reflected general opposition to the concept of an LATC. It was therefore noted that there was a need to improve the communication and engagement plan even though there was a detailed preamble to the consultation document. No alternatives or challenges were submitted in relation to the proposal.

42.4 The governance arrangements for the LATC were summarised, and it was noted that membership of the Executive Shareholder Group included non Cabinet members and was cross party. On-going scrutiny would be through the Adult and Community Services Overview Committee.

42.5 The County Councillor for Colehill and Stapehill was concerned about the number of responses to the consultation due to it being undertaken over the Christmas period, the financial viability and service quality of an LATC. The Cabinet Member for Adult Social Care confirmed that the strong business case to form an LATC had been scrutinised by the Adult and Community Services Overview Committee, Cabinet, the Section 151 officers of the partner councils and the South West Audit Partnership. It was necessary to introduce the LATC model to realise financial benefits, which would be complemented by a pan-Dorset approach as this would remove competition between the local authorities involved, and that quality control measures were in place already. It was also clarified that it was not possible to engage with many of the responders to the consultation as many had not left contact details. There would be a detailed communication plan to provide greater clarity on the areas of concern.

Resolved
43.1 That the establishment of a Pan-Dorset Local Authority Trading Company and support services company in line with the proposed scope contained within the Business Plan which was presented to Cabinet on 17 December 2014, be approved.
43.2 That delegated authority be granted to the Chief Executive and Director for Adult and Community Services, after consultation with Cabinet Member for Adult Social Care, the Leader of the Council, the Chief Financial Officer (S151 Officer) and Monitoring Officer, to agree the detailed implementation plans for the Pan-Dorset LATC including the proposed structure of the company following discussions with Bournemouth Borough Council and the Borough of Poole.

Reason for Decisions
44. To allow members to perform their consultative role as outlined in the 22 October 2014 and 17 December 2014 Cabinet reports.

Draft Financial Policies to Implement the Care Act
45.1 The Cabinet considered a report by the Cabinet Member for Adult Social Care which set out the draft financial policies to implement the Care Act, which would seek to put service users and their carers in control of their care and support arrangements.

45.2 The Cabinet Member for Adult Social Care outlined the impact of the report in relation to the introduction of the Care Act on financial aspects of adult social care specifically in relation to interest on deferred payments for care.

Resolved
46.1 That the proposals of the Executive Advisory Panel outlined in the Director's and Cabinet Member's report be supported.
46.2 That the proposed consultation exercise and final decision making arrangements set out in the report be approved.
46.3 That it be noted that, following adoption, senior managers would interpret and amend the financial policies in accordance with the powers delegated to them in the Constitution.
46.4 That the Executive Advisory Panel on the Care Act and Future Social Care Policy assume responsibility for monitoring the financial arrangements and keeping the charging arrangements under review.

Reason for Decisions
47. To help secure a sustainable approach to the County Council's corporate aim of focussing on health, wellbeing and safeguarding.

Dorset County Council Approved Premises Scheme for the Granting of Approval of Premises as Venues for Civil Marriage and Civil Partnership
48. The Cabinet considered a report by the Director for Adult and Community Services regarding the County Council's responsibility for granting approval to premises as venues at which civil marriage and civil partnership registrations might be conducted, in accordance with the Dorset County Council Approved Premises Scheme.

Resolved
49. That the amendments to the Dorset County Council Approved Premises Scheme for the granting of Approval of Premises as venues for Civil marriage and Civil partnership, as set out in Appendix 1 to the Director's report, be approved.

Reason for Decision

50. To support the Council's vision of working together for a strong and successful Dorset and contributed specifically to the area of focus of enabling economic growth.

Recommendations from the Environment Overview Committee

51. The Cabinet considered the following recommendations from the meeting of the Environment Overview Committee held on 19 January 2015:

Recommendation 16 – Heritage Partnership Agreement for Dorset Bridges

52. Officers were thanked by the Cabinet for efforts to introduce a blanket approval model which could hopefully be used as a template for dealing with historic buildings in due course.

Resolved

53. That subject to any further detailed revisions being approved by the Head of Environment, after consultation with the Portfolio Holder for Environment, the Heritage Partnership agreement be approved.

Reason for Decision

54. To ensure the effective and efficient maintenance of historic bridges in Dorset as an important part of our highway infrastructure and heritage, and to deliver corporate plan commitments to:

- Ensure the good management of our historic assets and heritage
- Provide efficient, customer-focussed regulatory services
- Manage and maintain the highway infrastructure

Recommendation 26 – Renewable Energy Business Rate Retention

55. The Director for Environment and the Economy explained that the Environment Overview Committee had discussed the impact of the recommendation to introduce a Bournemouth, Dorset and Poole Renewable Energy Scheme to deliver renewable energy initiatives through bids. Caution regarding clarity over the level of funding to be used from business rates retention and the proportion available to each authority was noted by the Cabinet and it was agreed to approve the principle of the scheme and that the final arrangements would be delegated to the Director and the Chief Fire Officer after consultation with the Cabinet Member for Environment.

Resolved

56.1 That, in principle, revenue resulting from the renewable energy business rates retention scheme for developments where the County Council was the planning authority should be allocated to support the County Council's work on community energy, currently led by the Sustainability Team, in accordance with the emphasis Government placed on encouraging this.

56.2 That approval of the final scheme be delegated to the Director for Environment and the Economy and the Chief Financial Officer after consultation with the Cabinet Member for Environment.

56.3 That officers be given a mandate, after consultation with the Cabinet Member for Environment, to approach Dorset's district, borough and town councils with a view to allocating a proportion of the renewable energy business rates accruing to them to deliver the shared commitment to community energy within the framework of the adopted Bournemouth, Dorset and Poole Energy Efficiency and Renewable Energy Strategies.

Reason for Decisions

57. Allocation of business rates from renewable energy installations would put the work on community energy led by the County Council on behalf of the local authorities in Dorset on a sustainable financial footing. This would enable the County Council to promote the development of community energy in Dorset, maximising the significant economic and social benefits in line with the County Council's corporate aims, specifically to:

- enable economic growth by promoting an energy efficient, low carbon economy,
- generate economic growth through the use of green technology and local energy.

Questions from Members of the Council

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

Exempt Business

Exclusion of the Public

Resolved

59. That in accordance with Section 100 A (4) of the Local Government Act 1972 to exclude the public from the meeting in relation to the business specified in minutes 60-62 because it was likely that if members of the public were present, there would be disclosure to them of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Act and the public interest in withholding the information outweighed the public interest in disclosing the information to the public.

Trailway Court Extra Care Scheme – Integrating Services: The retendering of the care and support service for the scheme

60.1 The Cabinet considered an exempt report by the Cabinet Member for Adult Social Care on the Trailway Court Extra Care Scheme. The report contained exempt information in accordance with paragraph 3, relating to the financial or business affairs of any particular person (including the authority holding that information).

60.2 The Cabinet Member for Adult Social Care explained that separate contracts for housing-related support and care and support services for the residents of Trailway Court extra care scheme in Blandford were due to end on 30 September 2015. It was proposed to combine the arrangements into one service to comprise four main components from October 2015 which would result in the provision of a seamless integrated service benefit for tenants.

Resolved

61. That the scheme be approved and permission be granted to procure and award a contract for the provision of a combined care and support service at Trailway Court, Blandford, for three years commencing on 1 October 2015, with the option of an additional three years subject to satisfactory performance.

Reason for Decision

62. Combining housing related support and care and support to provide more efficient and effective service delivery model for tenants contributed to the Council's corporate area of focus on 'Health, Wellbeing and Safeguarding'.

Meeting Duration: 10.00am – 11.35am

Agenda Item:

Cabinet

8a

Dorset County Council

Date of Meeting	2 February 2015
Cabinet Member Robert Gould – Leader Lead Officer(s) Richard Bates – Chief Financial Officer	
Subject of Report	**Medium Term Financial Plan (MTFP) and Budget 2015-16 to 2017-18**
Executive Summary	This report provides the final update on the major national and local issues facing the County Council and how they affect the 2015/16 budget and financial planning for the next three years. The Cabinet meeting on 17 December 2014 agreed the basis on which further development of the budget for 2015/16 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 the day after the meeting. A further update was provided for Cabinet on 14 January, analysing the settlement's impact on the authority. The Forward Together savings targets and budget strategy were largely unaffected by the settlement. The CPMI information for 2014/15 has also been routinely provided through the regular MTFP updates to Cabinet. Appendix 1 sets out the latest (December) forecast, predicting an overspend of just under £4m. The root causes of the overspend have been drawn to Members' attention during the year and are not repeated here. Focus will remain on reducing the size of the overspend by 31 March.

Impact Assessment:	Equalities Impact Assessment: This 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 previously reported budget position for the period 2015/16 and the following two years. Major risks that influence the development of the financial strategy include: • views taken on changes in grant funding, business rates growth, inflation rates, demographic and other pressures and income from the council tax; • success in delivering the savings anticipated from the Forward Together programme; • judgement on the use of reserves, balances and contingency; • pressures arising that have not been factored into the budget or the Forward Together programme.
	Risk Assessment: Having considered the risks associated with this decision using the County Council's approved risk management methodology, the level of risk has been identified as: Current Risk: MEDIUM Residual Risk MEDIUM for 2015/16 and HIGH for 2016/17 and beyond.
	Other Implications: None.
Recommendation	The Cabinet is asked to consider the contents of this report and: (i) note the risks associated with the structural budget overspend in 2014/15 and that firm plans need to be implemented to eliminate it over the MTFP period; (ii) consider the service issues and risks associated with the savings measures in Appendix 3 and the feedback from Overview Committees and other sources concerning these; (iii) note the impact on the contingency budget as a result of the strategy for balancing the 2014/15 and 2015/16 budgets; (iv) note the impact of the budget strategy on the authority's

	balances, as set out in 7.6, and the risk around their adequacy to deal with unplanned future expenditure or unachieved savings; (v) confirm the Council Tax increase of 1.99% for 2015/16 and 2% for planning purposes for the remainder of the MTFP period; (vi) recommend to the County Council: a) the revenue budget strategy for 2015/16 to 2017/18 b) the budget requirement and precept for 2015/16 c) the position on general balances and reserves; (vii) require the Chief Financial Officer to present to the County Council a schedule setting out the Council Tax for each category of dwelling and the precepts on each of the Dorset Councils for 2015/16.
Reason for Recommendation	To approve the Council Tax increase for 2015/16 and to enable work to continue on refining and managing the County Council's budget plan for 2015/16 and beyond.
Appendices	1 – CPMI for December 2014 2 – Forward Together dashboard as at 14 January 2015 3 – Summary of savings proposals for 2015/16 4 – Provisional budget and precept summary 2015/16
Background Papers	Society of County Treasurers' briefing papers Spending Review 2013 Chancellor's Autumn Statement 2014 Local Govt Finance Settlement 2015/16 MTFP updates to Cabinet 2 July 2014, 22 October 2014, 17 December 2014, 14 January 2015
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 fifth 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 2014, it agreed that proposals for savings in 2015/16 put forward by the Forward Together Board 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 £1.75m.

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 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 balance the national budget;
- advice and information issued by the Government, including the report of the Spending Review published in July 2013, the Chancellor’s Autumn Statement issued in December 2014 and the settlement;
- 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 risks associated with the Forward Together programme savings and the elimination of the structural budget deficit over the MTFP period;
- the material use of reserves and balances;
- the assumption that a referendum will be required if the Council wishes to raise the council tax by more than 1.99% in the MTFP period 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 continue throughout the MTFP period, particularly from the localisation of business rates.

2. Local Government Finance Settlement

2.1 The settlement for 2015/16 was not expected to contain any major surprises for Dorset. There was no expectation of any significant change from previous Government policy/strategy on funding and fortunately this proved to be the case. The January update to Cabinet focused on the areas of change or uncertainty so those items are not repeated here.

2.2 The final settlement is not expected until around the 4th February, after the date of this meeting but no significant changes are expected.

3 Updated financial position

3.1 A summary of the updated three year financial position is provided below.

Provisional budget summaries for 2015/16 to 2017/18

			2015-16	2016-17	2017/18
Assumed council tax increase			*1.99%*	*2.00%*	*2.00%*
Band D equivalent tax			*£1,215.18*	*£1,239.48*	*£1,264.23*
			£M	£M	£M
Previous year's budget			272.4	267.1	262.2
Base adjustments re grants and one-offs etc					
			272.4	267.1	262.2
Move in specific grants applied as general funding			1.8	0.8	0.6
Commitments provided for:					
- Resource Allocation Model			5.3	6.7	7.7
- Other central commitments			1.7	4.5	0.9
- Reduce provision for pay award to 1%			0.0	0.3	
- Collection Fund surplus			1.1	-1.1	
Total budget requirement before savings			**282.4**	**278.4**	**271.4**
Estimated budget available			**267.1**	**262.2**	**257.5**
Savings required	(3-year total:	-45.4)	-15.3	-16.2	-13.9
Savings found by:					
- Forward Together programme savings			-15.3	-4.0	-2.8
- Remainder still to be found to avoid scaling			0.0	-12.2	-11.1

3.2 The final taxbase figures have now been received from the billing authorities on 15 January have shown an increase of 0.94% across Dorset. This compares with our previous assumption of 0.42% and has added around £1m of additional funding for 2015-16. In addition, the Council’s share of the Collection Fund Surpluses total £1.08m.

3.3 In the MTFP update report to 17 December Cabinet, a sum of £1.7m was still required to balance the 2015-16 budget. Factoring in various changes from the settlement, as set out in the January report, together with the increased taxbase reduce that gap to £532k.

3.4 Rather than seeking further savings from service budgets at this late stage of the budget process, this shortfall will be covered through use of part of the Collection Fund Surplus for 2015-16 but will still need to be addressed in future years.

3.5 Although we have achieved a balanced budget for 2015/16, its delivery is contingent upon £15.3m of savings from the Forward Together programme, a further £2.1m of structural budget savings. Around £5.4m of general balances have been committed in 2014-15 and 2015-16 (see section 7) to phase in the structural budget savings required and for a number of time limited cost pressures. Up to £4m could also be required unless the overspend in 2014-15 can be reduced. There are considerable, continuing risks over the achievement of these savings and the application of reserves and balances gives a significantly reduced ability to absorb unplanned costs or unachieved savings.

3.6 Risk continues to exist under the yield from business rates under the new regime where the risk lies with authorities rather than central Government. There is also ongoing risk around Billing Authorities' local schemes for council tax support.

3.7 Significant work will still be required to produce a balanced budget for the following 2 financial years where a further £23m of savings will be required over and above what has already been identified.

4 Council tax strategy

4.1 Cabinet has been clear and consistent in its strategy for council tax throughout the year. Despite freeze grant funding of 1% being available again in 2015/16, Cabinet has reluctantly decided that it is necessary to increase council tax by 1.99% in 2015/16, to partly offset the reductions in Government grant.

4.2 Cabinet has also pursued a strategy of 2% annual increases across the remainder of the MTFP period. This assumption will need to be kept under review, especially as 2016/17 and 2017/18 will be subject to a new Spending Review – and possibly lower referendum limits for council tax increases - from the incoming Government after May 7th.

5 Feedback from January Overview Committees and other service considerations

5.1 An update on points raised by the overview committees will be provided at the meeting. Scheduling of the Committees makes it impossible to include feedback in this report.

6 Forward Together position

6.1 Cabinet has been informed regularly throughout the year, through these MTFP update reports and other specific reports from the FT Board, about the programme progress and savings targets. Appendix 2 provides the latest dashboard information around savings targets and progress.

6.2 Members will remember the £2m transformation fund that was established during 2013/14. This funding has been supplemented by the consolidation of the residual investment fund from MFC/MFC2, bringing the total to £2.4m. The Forward Together Board reviewed the bids and drawdown on the fund at its 14th January meeting. The current expectation is that £2.1m of this fund will be needed for the projects already identified. The Board will consider options for the use of the remaining funds and how these can deliver revenue budgets savings in future.

7 Contingency, reserves and balances

7.1 The 2014/15 base budget for contingency was £2.8m. As usual, it has been subject to the usual broad range of calls this year and December CPMI anticipated the fund being overdrawn by £0.7m. This could rise still further depending on redundancies to be confirmed before 31 March. Members also approved the use of £0.5m of contingency funding to balance the 2014/15 budget and a £1m reduction in contingency in 2015/16 as part of the MTFP strategy.

7.2 Contingency for 2015/16 is bolstered by £548k of unplanned collection fund surpluses from the district councils (the £1.08m surplus less £532k used to balance the 2015-16 budget). This funding is not part of the base budget because we cannot assume continuing collection fund surpluses. It must be used carefully and will be needed to fund additional calls on the contingency fund in 2015/16, as well as to provide a hedge against potential deficits on business rates collection funds – for which we will not have any estimates until after the date of this meeting. Calls on the contingency fund will include unachieved voluntary redundancy costs taken in the 2014/15 base budget, slippage on parking savings, restructuring costs and redundancy costs. It is also the first port of call if Members wish to continue with a further year of one-off funding for Divisional budgets.

7.3 The authority's balances (the general fund) closed 2013/14 at £19.3m. Cabinet gave approval in the July 2014 MTFP update to the use of £745k of this in 2015/16, plus a further £51k for verges work following recommendations from the Environment Overview Committee. Not all of this has been drawn down yet - and will not be if it is not needed – but it forms the basis of our general fund planning.

7.4 In October, in addition to this, Cabinet approved use of a further £5.3m of balances over the MTFP period to help eliminate the structural budget overspend. Appendix 2 to the October report identified £5.7m as the structural overspend and estimated that £5.3m of balances over the MTFP period would be needed to buffer achievement of these savings.

7.5 In December, Cabinet approved use of a further £419k of balances to fund deprivation of liberties costs in 2015/16, and an extra £950k for children's social work across 2015/16 and 2016/17.

7.6 Partly offsetting these reductions is around £2m which has been freed up from the review of specific reserves and balances carried out earlier in 2014. The impact of all of this and the latest forecast of overspend for the year is shown in the table below.

	£m
Opening balances	19.617
Cabinet agreed c/fwds July 2014	(0.796)
Support structural overspend elimination	(5.250)
Deprivation of liberties	(0.419)
Children's social work	(0.950)
Forecast overspend for 2014/15	(3.964)
Review of reserves and balances	2.000
Closing balances	10.238

7.7 As part of the budget strategy for 2014/15, Cabinet agreed changes to the Authority's framework for operating balances as follows:

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

7.8 We can see that the course of action we have adopted will bring our operating balances very close to the bottom of our operating range and extreme care is therefore required before making any further commitments. It is imperative that we continue pressure on expenditure this year to reduce the underspend while maintaining clear focus on our FT programme and the savings that must be delivered to ensure our balances do not reduce below the operating range.

7.9 At the end of each financial year, as part of our closedown process, we review reserves and balances extremely carefully to consider if anything can be released if it is no longer required for the purposes originally intended. This will be repeated shortly after 31 March 2015 and any results will be fed into the July MTFP update for Cabinet.

8 Consultation and equality

8.1 Business consultation this year is being carried out through a series of meetings with the business sector around the County. The main issues raised to date are in relation to infrastructure, broadband and the road network.

8.2 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.

8.3 The major public consultation exercise carried out this year was the Ask Dorset Campaign. The results of this have been used to inform decisions around this years budget and will now be a significant driver for the revised Corporate Plan and in informing the savings programme for 2016/17 and 2017/18.

9 Other factors

Surpluses/deficits on collection funds

9.1 As mentioned above, we have received the estimates from the district councils of the surpluses and deficits on their council tax collection funds. This has added just over £1m to the Council's budget but as also noted, this is not base budget funding and is available for one-off use only in 2015/16.

Members Divisional Budgets

9.2 Divisional budgets for members to use in their wards were established in 2014/15 out of the previous year's underspends, to benefit local people in their communities. Funding was established on a one-off basis with a maximum carry forward to 2015/16 of £1,000 per Member. If Members wish to continue with divisional funds, Cabinet will need to confirm the carry forward arrangements and also agree to the £250m (includes £25k costs of operating the scheme) funding from contingency.

Dorset Waste Partnership

9.3 The additional £1.14m of net costs of running the DWP in 2015/16, referred from the Joint Committee have also been built into the MTFP. No provision is included for any additional increases in cost beyond the revised 2015/16 level.

10 Risk assessment

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

- the possibility of a referendum being required beyond 2015/16 to achieve the increase in Council Tax assumed within the MTFS as this may be in excess of the referendum threshold;
- the possibility of the Forward Together programme (including the elimination of the structural overspend) 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 ;
- economic performance does not match the expectations of central Government plans and additional austerity measures are taken which impact further on our funding;
- 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 risks lie materially with local authorities, not with central Government;
- 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;
- Better Care Fund – despite financial modelling and clarity over funding for 2015/16, there are continuing risks that the plan that is agreed with health partners does not deliver the savings in line with our funding 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;
- The risk any further overspends on service budgets in the context of the reduced level of our general balances.

11 Statutory declarations

11.1 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''.

11.2 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.

11.3 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.

11.4 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.

11.5 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.

11.6 Technical aspects of the budget process applied for 2015/16 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.

11.7 Member involvement in budget development has been exercised particularly through meetings of the Forward Together Board. Senior members and officers worked successfully with Directors to bring forward proposals for consultation that would balance the budget in 2015/16. An all-member briefing was held in mid October after the Cabinet meeting. 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 12 February.

11.8 In addition to the above and discussions at Committees, Members have had access to the four earlier, detailed budget reports which have provided the national and local context for the medium term financial plan and budget strategy. There have also been all-Member briefings on the 2013/14 outturn and the 2015/16 budget Development during the year and another is scheduled for 2 February 2015. The budget strategy has also been covered in meetings of the Audit and Scrutiny Committee.

11.9 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. The position outlined in section 7 above, regarding the authority's projected general fund balance makes achievement of our savings targets critical.

Richard Bates
Chief Financial Officer
January 2015

Appendix 1

Cost Centre Management Budget Monitoring Summary	Responsible Officer	Year 2014-15 'Above Line' Net Budget Only £000's	Forcast £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						
Family Support	Vanessa Glenn	29,665	31,592	(1,484)	(1,754)	(1,928)
Strategy, Partnerships and Performance	Anne Salter	9,580	9,395	(7)	187	185
Other Services	Sara Tough	2,190	1,875	315	315	315
Learning and Inclusion services	Phil Minns	9,565	9,808	(302)	(265)	(243)
Total Non-Schools Budget		51,001	52,671	(1,478)	(1,517)	(1,670)
Schools Budget						
Learning and Inclusion - High Needs Block (excluding school balances)	Phil Minns	23,016	22,544	525	416	472
Learning and Inclusion - Early Years Block	Phil Minns	14,133	13,035	1,422	1,085	1,098
Strategy, Partnerships and Performance - Schools Central Budgets	Anne Salter	2,781	1,676	1,109	1,105	1,105
Total Net Central Expenditure		39,930	37,255	3,056	2,606	2,675
Dedicated Schools Grant and other funding (Schools Central)		(216,675)	(218,957)	2,282	2,282	2,282
Delegated Schools Budgets (including Special Schools and Learning centres)		185,977	179,208	6,973	8,961	6,769
Schools Budget Total		9,232	(2,494)	12,310	13,848	11,725
DPT Transport costs - SEN/COOS						
DPT Transport costs - SEN/COOS		7,297	7,723	(426)	(426)	(426)
Children's Services Total (including DPT Transport excluding Schools)		58,298	60,394	(1,904)	(1,943)	(2,096)
Adult & Community Services Directorate						
Specialist Adult Services	Glen Gocoul	31,561	34,966	(3,394)	(3,455)	(3,405)
Adults Services	Andrew Archibald	68,276	68,783	(1,196)	(918)	(508)
Commissioning and Improvement	Ali Waller	8,778	7,296	1,320	1,344	1,481
Trading Standards	Paul Leivers	1,206	1,114	72	85	92
Registration Service	Paul Leivers	81	(12)	94	82	92
Emergency Planning	Paul Leivers	148	148	(0)	6	0
Drug Action and Community Safety Team	Paul Leivers	1	(133)	104	133	133
Libraries, Arts & Sports	Paul Leivers	5,054	4,954	132	120	100
Community Services	Paul Leivers	104	104	0	0	1
Archives & Museums	Paul Leivers	492	487	3	4	4
Adult & Community Services total (excluding DAL)		115,700	117,709	(2,863)	(2,600)	(2,009)
Dorset Adult Learning - Trading Account						
Dorset Adult Learning	Paul Leivers	0	0	0	0	0
Adult & Community Services total including DAL		115,700	117,709	(2,863)	(2,600)	(2,009)
Environment and the Economy Directorate						
Economy, Planning & Transport	Matthew Piles	1,749	1,656	103	100	93
Dorset Passenger Transport	Matthew Piles	15,960	15,966	51	(6)	(6)
Business support Unit	Matthew Piles	795	762	42	48	34
Coast & Countryside	Peter Moore	2,232	2,358	(151)	(120)	(126)
Estates & Assets	Peter Moore	2,607	2,689	(130)	(77)	(82)
Buildings & Construction	Peter Moore	(61)	(412)	353	361	352
Network Management	Andrew Martin	2,536	2,491	24	47	45
Network Development	Andrew Martin	794	749	42	83	45
Network Operations	Andrew Martin	4,047	3,991	54	56	56
Fleet Services	Andrew Martin	1,035	1,100	0	(59)	(65)
Director's Office	Mike Harries	914	908	(82)	(82)	6
Streetlighting PFI	Andrew Martin	4,058	4,058	0	0	0
		36,668	36,316	307	350	351
Chief Executives						
Chief Executives Office	Debbie Ward	832	802	31	31	31
Policy,Partnerships and Performance	Sam Fox-Adams	713	690	0	23	23
Business Development	Partick Myers	1,134	1,132	35	1	1
Assistant Chief Executive		293	249	44	44	44
Legal & Democratic Services	Jonathan Mair	2,735	2,706	118	131	28
Financial Services	Richard Bates	1,752	1,719	34	33	33
ICT	Richard Pascoe	5,425	5,625	(200)	(200)	(200)
Human Resources	Sheralyn Huntingford	2,198	2,160	161	5	38
Customer Services	Richard Pascoe	1,557	1,592	(14)	(34)	(35)
Cabinet		3,821	3,857	(16)	(6)	(36)
		20,459	20,532	193	28	(73)
Partnerships						
Dorset Waste Partnership	Steve Burdis	19,171	20,773	(1,600)	(1,600)	(1,601)
Public Health	David Phillips	1,343	1,343	0	0	0
		20,514	22,116	(1,600)	(1,600)	(1,601)
Central Finance						
Central Finance	Richard Bates	(298,891)	(300,980)	1,867	1,849	2,089
Movements in Reserves	Richard Bates	36,791	37,417	(120)	(383)	(626)
R&M		1,230	1,230	0	0	0
		(260,871)	(262,334)	1,747	1,465	1,463
Total Above Line Budgets		**(0)**	**(7,761)**	**8,188**	**9,548**	**7,761**
Excluding Schools Budgets		**(9,232)**	**(5,267)**	**(4,122)**	**(4,300)**	**(3,964)**

Page 13 – Medium Term Financial Plan (MTFP) and Budget 2015-16 to 2017-18

Appendix 2

Forward Together Dashboard as at 14 January 2015

	Target savings by year	2014/15	2015/16	2016/17	2017/18	Total £
blue	Delivered £	5,554,800	0	0	0	5,554,800
green	Green £	1,557,300	10,152,000	0	0	11,709,300
amber	Amber £	1,000,000	1,175,000	0	0	2,175,000
red	Red £	554,400	40,000	12,237,500	11,124,000	23,955,900
purple	Purple £	0	1,880,000	0	0	1,880,000
grey	Grey £	300,000	2,022,000	3,989,000	2,775,000	9,086,000
	Total	8,966,500	15,269,000	16,226,500	13,899,000	54,361,000

Current expectation of savings	Current expectation of variance from target	projected variance 2014/15	projected variance 2015/16	projected variance 2016/17	projected variance 2017/18
30,445,100	-23,915,900	-554,400	0	-12,237,500	-11,124,000

Forward Together Programme - Summary of 4 year target savings by project

Lead Director	Project	Project name	Grey £ (2014/15 - 2017/18)	Purple £	Red £	Amber £	Green £	Delivered £	Total £	Current expectation of savings	Current expectation of variance from target	Notes / narrative (links)
Sara Tough	1	Forward together for Children	0	0	0	150,000	709,000	185,300	1,044,300	1,044,300	0	
Sara Tough	2	Review of universal services	1,000,000	0	0	0	0	0	1,000,000	1,000,000	0	
Catherine Driscoll	4	Pathways to Independence	0	0	0	400,000	4,600,000	2,000,000	7,000,000	7,000,000	0	Includes Base Budget Target of £3M over 3 years
Catherine Driscoll	6	Better Care Fund	0	0	0	0	4,750,000	0	4,750,000	4,750,000	0	Confirmation from the CCG on 16 September following intensive negotiations - £5.1M target reduced due to changes in national Better Care Fund Policy to £2.75M and one off money of £2M
David Phillips	7	Public Health integration	550,000	0	0	0	275,000	500,000	1,325,000	1,325,000	0	
Mike Harries	8	FT New Operational Model	1,164,000	0	0	100,000	10,000	226,000	1,500,000	1,500,000	0	
Mike Harries	9	FT Highways delivery model	322,000	0	40,000	25,000	327,000	286,000	1,000,000	1,000,000	0	
Mike Harries	10	FT Holistic transport review	1,250,000	0	0	250,000	0	0	1,500,000	1,500,000	0	
Debbie Ward	11	Way We Work	3,500,000	0	0	0	0	0	3,500,000	3,500,000	0	
Debbie Ward	12	One county	0	0	0	0	0	0	0	0	0	
Debbie Ward	13	Existing savings programmes	0	0	0	500,000	38,300	760,000	1,298,300	1,298,300	0	
Debbie Ward	14	Whole authority operating strategy	1,300,000	0	554,400	750,000	1,000,000	1,597,500	5,201,900	4,647,500	-554,400	
Debbie Ward	89	Saving measures in progress	0	1,880,000	0	0	0	0	1,880,000	1,880,000	0	
Debbie Ward	99	Savings to be identified	0	0	23,361,500	0	0	0	23,361,500	0	-23,361,500	
		Total	9,086,000	1,880,000	23,955,900	2,175,000	11,709,300	5,554,800	54,361,000	30,445,100	-23,915,900	
Sara Tough	3	Independent care provision - structura	2,200,000	0	0	0	0	0	2,200,000	2,200,000	0	
Catherine Driscoll	5	Adult Care - structural deficit	3,000,000	0	0	0	0	0	3,000,000	3,000,000	0	
Mike Harries	15	SEN transport - structural deficit	500,000	0	0	0	0	0	500,000	500,000	0	
		Total	5,700,000	0	0	0	0	0	5,700,000	5,700,000	0	

Forward Together Programme - Summary of target savings by year - 2014/15

			2014/15 only									
Lead Director	Project	Project name	Grey £	Purple £	Red £	Amber £	Green £	Delivered £	Total £	Current expectation of savings	Current expectation of variance from target	Notes / narrative (links)
Sara Tough	1	Forward together for Children	0	0	0	50,000	409,000	185,300	644,300	644,300	0	
Sara Tough	2	Review of universal services	0	0	0	0	0	0	0	0	0	
Catherine Driscoll	4	Pathways to Independence	0	0	0	400,000	1,000,000	2,000,000	3,400,000	3,400,000	0	
Catherine Driscoll	6	Better Care Fund	0	0	0	0	0	0	0	0	0	
David Phillips	7	Public Health integration	0	0	0	0	0	500,000	500,000	500,000	0	
Mike Harries	8	FT New Operational Model	0	0	0	50,000	10,000	226,000	286,000	286,000	0	
Mike Harries	9	FT Highways delivery model	0	0	0	0	100,000	286,000	386,000	386,000	0	
Mike Harries	10	FT Holistic transport review	0	0	0	0	0	0	0	0	0	
Debbie Ward	11	Way We Work	0	0	0	0	0	0	0	0	0	
Debbie Ward	12	One county	0	0	0	0	0	0	0	0	0	
Debbie Ward	13	Existing savings programmes	0	0	0	500,000	38,300	760,000	1,298,300	1,298,300	0	
Debbie Ward	14	Whole authority operating strategy	300,000	0	554,400	0	0	1,597,500	2,451,900	1,897,500	-554,400	
		Total	300,000	0	554,400	1,000,000	1,557,300	5,554,800	8,966,500	8,412,100	-554,400	

Forward Together Programme - Summary of target savings by year - 2015/16

			2015/16 only									
Lead Director	Project	Project name	Grey £	Purple £	Red £	Amber £	Green £	Delivered £	Total £	Current expectation of savings	Current expectation of variance from target	Notes / narrative (links)
Sara Tough	1	Forward together for Children	0	0	0	100,000	300,000	0	400,000	400,000	0	
Sara Tough	2	Review of universal services	0	0	0	0	0	0	0	0	0	
Catherine Driscoll	4	Pathways to Independence	0	0	0	0	3,600,000	0	3,600,000	3,600,000	0	
Catherine Driscoll	6	Better Care Fund	0	0	0	0	4,750,000	0	4,750,000	4,750,000	0	Confirmation from the CCG on 16 September following intensive negotiations - £5.1M target reduced due to changes in national Better Care Fund Policy to £2.75M and one off money of £2M
David Phillips	7	Public Health	0	0	0	0	275,000	0	275,000	275,000	0	
Mike Harries	8	FT New Operational Model	450,000	0	0	50,000	0	0	500,000	500,000	0	
Mike Harries	9	FT Highways delivery model	322,000	0	40,000	25,000	227,000	0	614,000	614,000	0	
Mike Harries	10	FT Holistic transport review	0	0	0	250,000	0	0	250,000	250,000	0	
Debbie Ward	11	Way We Work	750,000	0	0	0	0	0	750,000	750,000	0	
Debbie Ward	12	One county	0	0	0	0	0	0	0	0	0	
Debbie Ward	13	Existing savings programmes	0	0	0	0	0	0	0	0	0	
Debbie Ward	14	Whole authority operating strategy	500,000	0	0	750,000	1,000,000	0	2,250,000	2,250,000	0	
Debbie Ward	89	Saving measures in progress	0	1,880,000	0	0	0	0	1,880,000	1,880,000	0	
Debbie Ward	99	Savings to be identified	0	0	0	0	0	0	0	0	0	
		Total	2,022,000	1,880,000	40,000	1,175,000	10,152,000	0	15,269,000	15,269,000	0	
Sara Tough	3	Independent care provision - structura	800,000	0	0	0	0	0	800,000	800,000	0	
Catherine Driscoll	5	Adult Care - structural deficit	1,000,000	0	0	0	0	0	1,000,000	1,000,000	0	
Mike Harries	15	SEN transport - structural deficit	250,000	0	0	0	0	0	250,000	250,000	0	
		Total	2,050,000	0	0	0	0	0	2,050,000	2,050,000	0	

Forward Together Programme - Summary of target savings by year - 2016/17

Lead Director	Project	Project name	2016/17 only Grey £	Purple £	Red £	Amber £	Green £	Delivered £	Total £	Current expectation of savings	Current expectation of variance from target	Notes / narrative (links)
Sara Tough	1	Forward together for Children	0	0	0	0	0	0	0	0	0	
Sara Tough	2	Review of universal services	1,000,000	0	0	0	0	0	1,000,000	1,000,000	0	
Catherine Driscoll	4	Pathways to Independence	0	0	0	0	0	0	0	0	0	
Catherine Driscoll	6	Better Care Fund	0	0	0	0	0	0	0	0	0	
David Phillips	7	Public Health	275,000	0	0	0	0	0	275,000	275,000	0	
Mike Harries	8	FT New Operational Model	714,000	0	0	0	0	0	714,000	714,000	0	
Mike Harries	9	FT Highways delivery model	0	0	0	0	0	0	0	0	0	
Mike Harries	10	FT Holistic transport review	500,000	0	0	0	0	0	500,000	500,000	0	
Debbie Ward	11	Way We Work	1,250,000	0	0	0	0	0	1,250,000	1,250,000	0	
Debbie Ward	12	One county	0	0	0	0	0	0	0	0	0	
Debbie Ward	13	Existing savings programmes	0	0	0	0	0	0	0	0	0	
Debbie Ward	14	Whole authority operating strategy	250,000	0	0	0	0	0	250,000	250,000	0	
Debbie Ward	99	Savings to be identified	0	0	12,237,500	0	0	0	12,237,500	0	-12,237,500	
		Total	**3,989,000**	**0**	**12,237,500**	**0**	**0**	**0**	**16,226,500**	**3,989,000**	**-12,237,500**	
Sara Tough	3	Independent care provision - structura	800,000	0	0	0	0	0	800,000	800,000	0	
Catherine Driscoll	5	Adult Care - structural deficit	1,000,000	0	0	0	0	0	1,000,000	1,000,000	0	
Mike Harries	15	SEN transport - structural deficit	250,000	0	0	0	0	0	250,000	250,000	0	
		Total	**2,050,000**	**0**	**0**	**0**	**0**	**0**	**2,050,000**	**2,050,000**	**0**	

Forward Together Programme - Summary of target savings by year - 2017/18

Lead Director	Project	Project name	2017/18 only Grey £	Purple £	Red £	Amber £	Green £	Delivered £	Total £	Current expectation of savings	Current expectation of variance from target	Notes / narrative (links)
Sara Tough	1	Forward together for Children	0	0	0	0	0	0	0	0	0	
Sara Tough	2	Review of universal services	0	0	0	0	0	0	0	0	0	
Catherine Driscoll	4	Pathways to Independence	0	0	0	0	0	0	0	0	0	
Catherine Driscoll	6	Better Care Fund	0	0	0	0	0	0	0	0	0	
David Phillips	7	Public Health	275,000	0	0	0	0	0	275,000	275,000	0	
Mike Harries	8	FT New Operational Model	0	0	0	0	0	0	0	0	0	
Mike Harries	9	FT Highways delivery model	0	0	0	0	0	0	0	0	0	
Mike Harries	10	FT Holistic transport review	750,000	0	0	0	0	0	750,000	750,000	0	
Debbie Ward	11	Way We Work	1,500,000	0	0	0	0	0	1,500,000	1,500,000	0	
Debbie Ward	12	One county	0	0	0	0	0	0	0	0	0	
Debbie Ward	13	Existing savings programmes	0	0	0	0	0	0	0	0	0	
Debbie Ward	14	Whole authority operating strategy	250,000	0	0	0	0	0	250,000	250,000	0	
Debbie Ward	99	Savings to be identified	0	0	11,124,000	0	0	0	11,124,000	0	-11,124,000	
		Total	**2,775,000**	**0**	**11,124,000**	**0**	**0**	**0**	**13,899,000**	**2,775,000**	**-11,124,000**	
Sara Tough	3	Independent care provision - structura	600,000	0	0	0	0	0	600,000	600,000	0	
Catherine Driscoll	5	Adult Care - structural deficit	1,000,000	0	0	0	0	0	1,000,000	1,000,000	0	
Mike Harries	15	SEN transport - structural deficit	0	0	0	0	0	0	0	0	0	
		Total	**1,600,000**	**0**	**0**	**0**	**0**	**0**	**1,600,000**	**1,600,000**	**0**	

Appendix 3

Summary of savings proposals for 2015/16

Adult & Community Services		
	Description/Impact	**2015/16 £**
Pathways to Independence	Development of a Local Authority Trading Company (LATC) for a range of in-house provider services that deliver residential, nursing, respite, day care and re-ablement 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**	1,500,000
	Staff restructuring across the directorate. **Risk: Low**	1,000,000
	Review existing packages of care (£400k slipped from 2014/15 into 2015/16). **Risk: Medium**	1,100,000
	Total	**3,600,000**
Forward Together	Increase in section 75 funding agreed with CCG as part of the Better Care Fund. **Risk: Low**	2,750,000
	Substance Misuse contracts costs in Adult and Community services to be funded by the Public Health Grant – DCC share of agreed in the legal agreement. **Risk: Low**	275,000
	Registration Service– to become fully funded from income as it exceeds its income target. **Risk Low**	83,200
	Trading Standards budget reduction. **Risk Low**	20,000
	Libraries budget reduction. **Risk: Low**	80,000
	Review of Vocational Services. **Risk: Low**	100,000
	Review of Supporting People contracts (£150k in addition to the £200k in as part of the emergency local assistance scheme) (Budget £7.5m).**Risk: Low**	150,000
	Savings to be identified	266,800
	Use of **one off** uncommitted section 256 funding agreed with CCG. **Risk: Low**	2,000,000
	Total	**5,725,000**

Children's Services		
Budget Working Group 2014/15	Savings from the previous restructuring, business admin review and increased income target for traded services. **Risk: Low**	400,000
Forward Together	Full year effect on the previous restructure. **Risk : Low**	121,000
	Further increase in traded services income target. **Risk : Medium**	100,000
	Reduction in local office / general admin costs / savings on other budget lines. **Risk : Low**	125,800
	Review of Early Intervention Budgets. **Risk: Low**	69,500
	Savings on the Connexions Contract. **Risk : Low**	83,700
	Total	**900,000**

Page 17 – Medium Term Financial Plan (MTFP) and Budget 2015-16 to 2017-18

Chief Executives Department		
	Description/Impact	**2015/16 £**
Human Resources	Restructuring of the service. **Risk: Low**	200,000
Coroners Service	Savings as a result of a Partnership agreement with Bournemouth and Poole. **Risk: Medium**	75,000
Corporate and Democratic Core	Budget reductions. **Risk: Low**	15,000
Legal and Democratic Services	Restructuring of the service as well as some budget reductions in Supplies and Services. **Risk: Low**	90,000
ICT	Restructuring of the service. **Risk: Medium**	400,000
Financial Services	Savings in Staffing budget **Risk: Low**	50,000
Customer Services Unit	Savings in Staffing budget. **Risk: Low**	100,000
	Total	**930,000**

Whole Authority		
Forward Together	Way we work property rationalisation. **Risk : Medium**	500,000
	Way we work Travel Choices. **Risk : Low**	250,000
	Review of Reserves & Balances **Risk : Medium**	500,000
	Reduction in Contingency Budget	1,200,000
	Total	**2,450,000**

Environment & Economy		
	Description/Impact	**2015/16 £**
Budget Working Group 2014/15	Environment Division including a review of the countryside service to be incorporated into the Directorate Transformation Programme. **Risk: Medium**	100,000
	Highways Division incorporating various initiatives agreed as part of the budget setting process for 2014/15. **Risk: Low**	342,000
Forward Together	Directorate Operational Model (overall savings requirement £1.5M). A major re-structure of the whole Directorate is in progress with phase 2 now completed. Service redesign reviews have been carried out within each of the three new divisions to inform the revised structures ahead of planned implementation in the July 2015. **Risk: Medium**	400,000
	Highways Delivery Model (overall savings requirement £1M). Various service delievery models have been considered and the preferred option is the current 'mixed economy' model. A full service redesign has now been carried out, the outcomes of which will feed into the Directorate Operational Model. **Risk: Low**	72,000
	Holistic Transport Review (overall savings requirement £1.5M). The review has established three strands: Strategy and Performance; Policy and Practice; and Operations and Delivery. **Risk: Medium**	250,000
Whole Directorate	This will be achieved through the Directorate's transformation programme (Way Ahead) and the on-going Highways Reviews by aiming to exceed the current target. In addition an in-depth review of the Estates and Assets functions is planned. **Risk: Medium**	500,000
	Total	**1,664,000**

	Grand Total	**15,269,000**

Appendix 4

Provisional budget and precept summary 2015/16

Provisional Precept and Budget Summary 2015-16

		£	£
Budget Requirement: -			267,129,941
To be met from: -	Start-up Funding Assessment		70,138,000Cr
	Council Taxpayers		196,991,941
	Estimated Surplus on Collection Funds		1,079,698Cr
	Precept required in 2015-16		195,912,243

PRECEPTS

District Councils	**Tax Base 2015-16**	**Estimated Surplus on Collection Funds 2014-15 £.p.**	**Precept 2015-16 £.p.**	Tax Base 2014-15	Precept 2014-15 £.p.
CHRISTCHURCH	19,253.00	0.00	23,397,593.31	19,095.00	22,751,883.45
EAST DORSET	36,446.00	0.00	44,291,730.42	36,194.00	43,125,512.94
NORTH DORSET	26,135.60	181,999.00Cr	31,761,810.61	25,847.60	30,797,673.88
PURBECK	18,452.92	109,037.00	22,425,280.09	18,301.55	21,806,479.84
WEST DORSET	40,531.90	634,947.00Cr	49,257,202.11	40,130.30	47,815,653.75
WEYMOUTH & PORTLAND	20,389.40	371,789.00Cr	24,778,626.14	20,128.10	23,982,832.43
	161,208.82	1,079,698.00Cr	195,912,242.68	159,696.55	190,280,036.29

COUNCIL TAX

	2015-16	2014-15
BASIC AMOUNT	**1,215.27**	£1,191.51
		1.99% increase
BAND A	**810.18**	794.34
BAND B	**945.21**	926.73
BAND C	**1,080.24**	1,059.12
BAND D	**1,215.27**	1,191.51
BAND E	**1,485.33**	1,456.29
BAND F	**1,755.39**	1,721.07
BAND G	**2,025.45**	1,985.85
BAND H	**2,430.54**	2,383.02

ANNEXURE 2

Cabinet

Dorset County Council

Date of Meeting	2 February 2015
<u>Cabinet Member</u> Robert Gould – Leader of the Council and Cabinet Member for Corporate Resources <u>Lead Officer</u> Richard Bates – Chief Financial Officer	
Subject of Report	**Treasury Management Strategy Statement and Prudential Indicators for 2015-16**
Executive Summary	The CIPFA Prudential Code highlights particular aspects of the planning of capital expenditure and the funding of that expenditure. The Code requires the publication and monitoring of Prudential Indicators which inform Members of the scope and impact of the capital spend. In addition, there are separate requirements under the CIPFA Treasury Management Code to publish a Treasury Management Strategy. This report sets out the issues for consideration and seeks agreement to the required indicators and strategies.
Impact Assessment:	Equalities Impact Assessment: There are no equality issues that arise from this report.
	Use of Evidence: Historical trends and experiences along with professional advice and recommended best practices have been followed in the development of this strategy and the formulation of the Prudential Indicators.
	Budget: All treasury management budget implications are reported as part of the Corporate Budget.

	Risk Assessment: Having considered the risks associated with this decision using the County Council's approved risk management methodology, the level of risk has been identified as: Current Risk: MEDIUM Residual Risk MEDIUM Treasury management is an inherently risky area of activity. This report describes those risks and the controls in place to mitigate those risks.
	Other Implications: None.
Recommendation	The Cabinet recommends to the County Council approval of: 1. The Prudential Indicators and Limits for 2015/16 to 2017/18. 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 2015/16 to 2017/18. 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 2015/16 CIPFA Prudential Code for Capital Finance in Local Authorities
Officer Contact	Name: David Wilkes, Finance Manager (Treasury & Investments) Tel: 01305 224119 Email: D.Wilkes@dorsetcc.gov.uk

1. Background

1.1. The Treasury Management function of the Council manages the cashflow, banking, money market transactions and long term debts, and in doing so manages the risks associated with these activities with a view to optimising interest earned and minimising the costs of borrowing. The cash turnover of the Council from day to day activities is 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 2015/16 and 2016/17, adds an extra year for 2017/18, 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 2013/14 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 2015/16 to 2017/18 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 2013/14 to 2017/18 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 2013/14 to 2017/18

	2013/14 £000 Actual	2014/15 £000 Estimate	2015/16 £000 Estimate	2016/17 £000 Estimate	2017/18 £000 Estimate
Environment	32,368	47,115	20,423	14,599	17,377
Childrens	32,919	31,496	19,216	17,952	3,300
Adult & Community	1,713	2,496	2,679	1,535	285
Corporate Resources	3,308	18,488	12,355	7,552	8,550
Cabinet	642	4,206	5,195	585	350
Dorset Waste Partnership	5,244	6,481	9,239	1,790	0
Structural Maintenance	0	8,183	8,510	8,260	8,010
REFCUS	5,038	1,874	2,602	1,736	1,235
Contingency & Flexibility	0	2,641	1,117	868	10,315
Slippage	0	-15,000	0	0	0
TOTAL	**81,232**	**107,980**	**81,336**	**54,877**	**49,422**

2.5. The figures appear to show a decline in capital expenditure from 2014/15 onwards. This is because they only include expenditure that can be financed from sources that are reasonably certain at this point in time. Figures for 2014/15 and 2015/16 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 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 2014 are:

Table 2 Capital Financing Requirement Actual and Forecast 2013/14 – 2017/18

	2013/14 £000 Actual	2014/15 £000 Estimate	2015/16 £000 Estimate	2016/17 £000 Estimate	2017/18 £000 Estimate
Debt	279,121	307,841	324,876	328,558	334,701
Long Term Liabilities	45,664	45,664	45,664	45,664	45,664
CFR	**324,785**	**353,505**	**370,540**	**374,222**	**380,365**

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

2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
6.70%	7.73%	8.51%	9.04%	9.28%

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 2017/18.

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 surplus 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.

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

	2015/16 £	2016/17 £	2017/18 £
Cost of capital programme on Band D council tax	2.17	1.82	3.02

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 2015/16 to 2017/18

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 latest position on each is shown below:

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 and a further payment is now expected, which will also be returned to the Council's reserves. The loan remains on the Council's balance sheet but is fully impaired which means that any further payments received can be returned to the Council's reserves.

Landsbanki

4.10. Dorset County Council also had deposits frozen with Landsbanki, although this process had been progressing significantly slower than Heritable as it was 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").

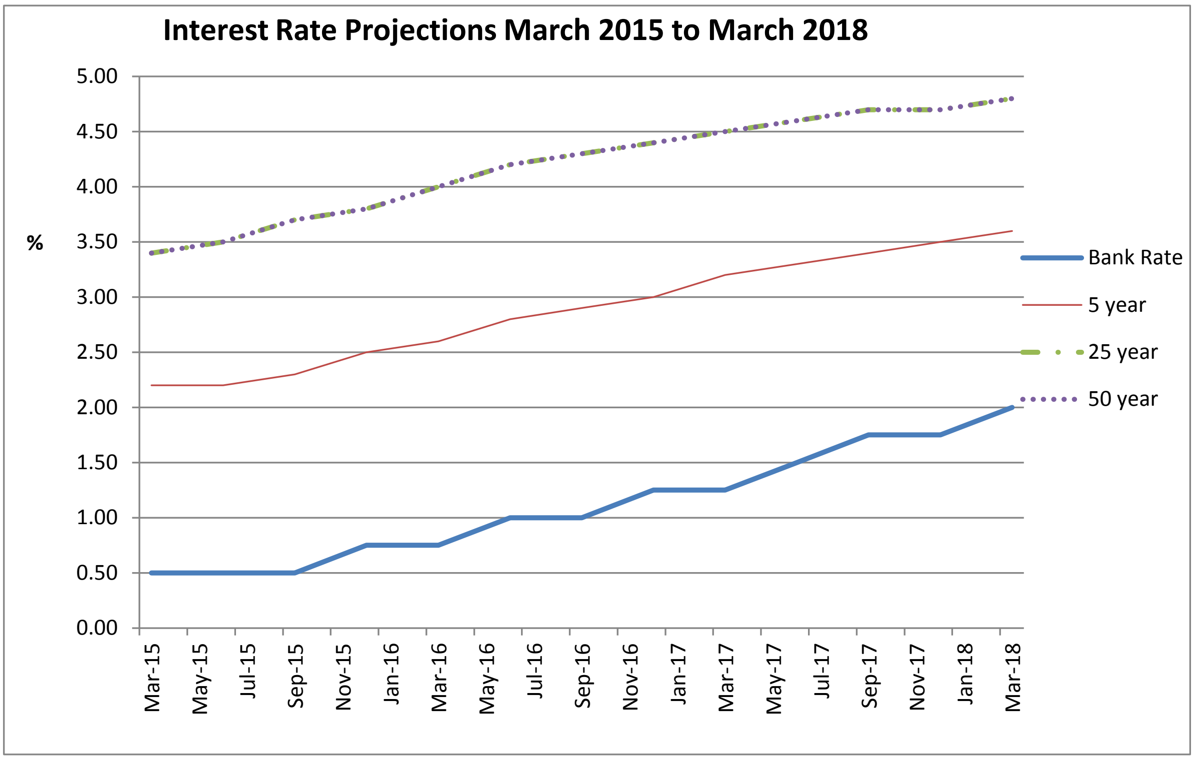
4.11. In February 2014 the Council was one of a large number of creditors who sold its claims against the insolvent estate of Landsbanki (LBI). The claims were sold through a competitive auction process. The price at which the claims were sold was based on a reserve price set by the Council on the basis of legal advice received from Bevan Brittan and financial advice procured by the LGA and the Council's own analysis of the financial position. The amount written off in previous years amounted to 91.35% of the original claim and this sale has meant that £100k has been returned to the Council's reserves.

4.12. The Landsbanki loan has therefore been removed from the Council's balance sheet.

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 2018, 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 from December 2015 and steadily rising thereafter to around 2.0% by March 2018. The cost of borrowing from the Public Works Loans Board (PWLB), whose rates are priced off the gilts markets, is also expected to increase over the period, increasing from approximately 3% currently to around 5% for long term maturities of more than 25 years.

Chart 1 – Interest Rate Outlook 2015-2018



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

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. The US, the biggest world economy, has generated impressive growth rates of 4.6% (annualised) in Quarter 2 2014 and 5.0% in Quarter 3. This is very promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.

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

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

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

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

d) Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years.

However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

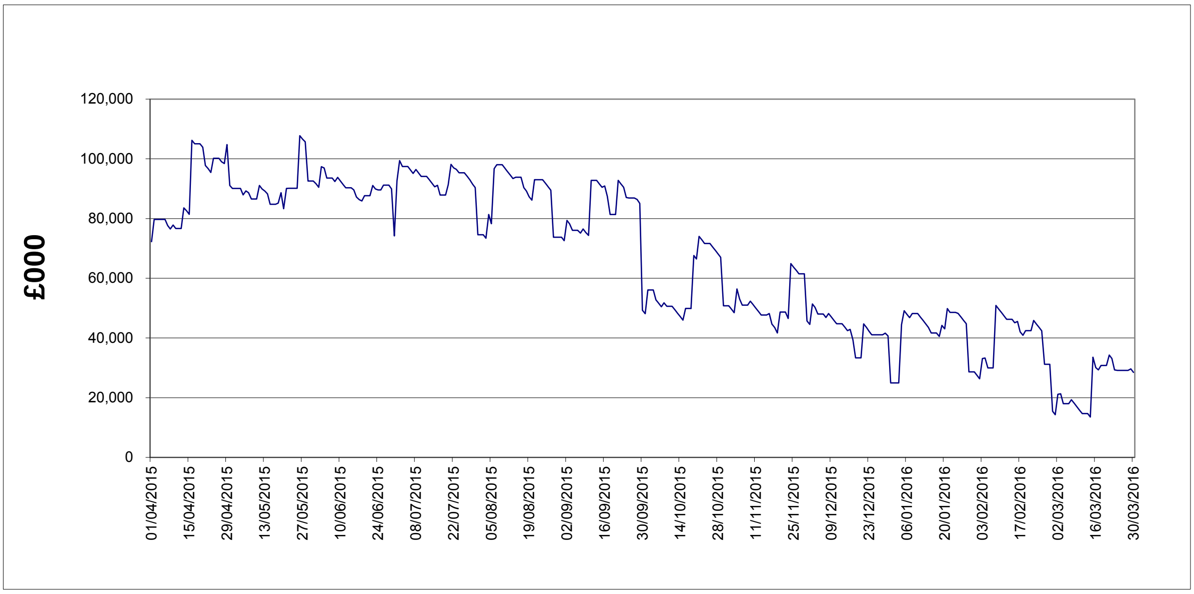
e) There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss caused by high borrowing costs and low investment returns.

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 £105m with the minimum level being £10m in March 2016.

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

Chart 2 – Dorset County Council Cashflow Forecast 2015/16



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 £63m) 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. Although these tend to take the form of Lender Option Borrower Options (LOBO) loans, which can be taken over periods of 40-70 years, all types of loans will be considered if they are consistent with the borrowing strategy. 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 on-going activities, and as the Council builds up reserves and makes provisions these are reflected in the cash balances it holds. The cash held can be used to finance the capital programme, instead of borrowing externally. In reality the decision to borrow from cash balances will depend on the prevailing interest rate environment.

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 long term 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 its CFR. This strategy means the Council is expected to be 'under borrowed' by approximately £90m at 31 March 2015. 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 at some stage over the next three years, 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 Chief Financial Officer will continue to monitor interest rates in the financial markets and adopt a pragmatic approach to changing circumstances when making borrowing and investment decisions.

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 2015/16 to 2017/18

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 2017/18 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 £261m at 31 March 2015, significantly less than the CFR, which is estimated to stand at £354m at the same date, representing underborrowing of approximately £90m. The breakdown of this plus estimates of borrowing for 2015/16 to 2017/18 are summarised in Table 5.

Table 5 – External Debt Actual and Estimates 2013/14 – 2017/18

External Debt	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Debt at 1 April	182,084	213,871	215,502	219,875	223,558
Expected change in Debt	31,787	1,631	4,373	3,683	6,142
PFI / Finance Lease Liabilities	47,113	45,664	45,664	45,664	45,664
Expected change in PFI Liabilities	-1,449	0	0	0	0
Actual gross debt at 31 March	**259,535**	**261,166**	**265,539**	**269,222**	**275,364**

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 2014-2018

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Borrowing	335,000	335,000	335,000	335,000
Other long term liabilities	47,000	47,000	47,000	47,000
Total Operational Boundary	**382,000**	**382,000**	**382,000**	**382,000**

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.

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 2013/14 – 2017/18

	2014/15 £000	**2015/16 £000**	**2016/17 £000**	**2017/18 £000**
Borrowing	355,000	355,000	355,000	355,000
Other long term liabilities	49,000	49,000	49,000	49,000
Total	**404,000**	**404,000**	**404,000**	**404,000**

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

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

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.

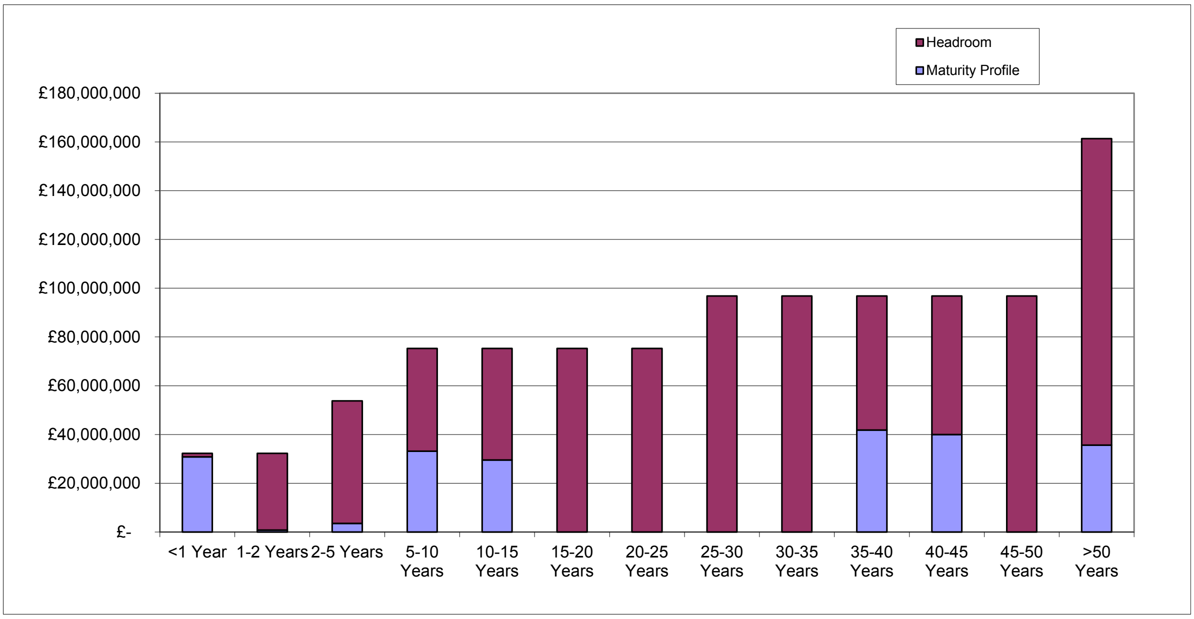
b) Upper limit on variable interest rate exposure – this identifies a maximum revenue cost of interest paid on variable debts, which is designed to minimise the budget exposure of the Council to movements in interest rates, a sudden increase in variable interest rates can cost the Council a significant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

	2015/16 Upper £000	2016/17 Upper £000	2017/18 Upper £000
PI 9 Limits on net fixed interest rates payments	11,000	12,000	13,000
PI 10 Limits on net variable interest rate	2,000	2,000	2,000
PI 11 Maturity Structure of fixed interest rate borrowing 2015/16		**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%
20 Years to 25 Years		0%	45%
25 Years to 30 Years		0%	45%
30 Years to 35 Years		0%	45%
35 Years to 40 Years		0%	45%
40 Years to 45 Years		0%	45%
45 Years to 50 Years		0%	45%
50 Years and above		0%	75%

Chart 3 – Debt Maturity Limits compared to Actual Debt Maturity Profile Projected at 31 March 2015



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 19 January 2015 the Weighted Average Life of the Council's investments was 4 months. This reflects that the Council had no investments at this time maturing in over one year, £25m maturing in more than six months time, £45m in less than six months and all other investments (£23.5m) 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 Indicator 12 – Maximum principal sums invested >364 days

	2015/16 £000	2016/17 £000	2017/18 £000
Maximum amount invested > 364 Days	30,000	30,000	30,000
% of which can be up to 2 years	100%	100%	100%
% of which can be up to 3 years	75%	75%	75%
% of which can be up to 4 years	50%	50%	50%
% of which can be up to 5 years	25%	25%	25%

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 £000	2015/16 Estimated + 1% £000	2015/16 Estimated - 1% £000
Interest on Borrowing	10,000	(100)	100
Investment Income*	20,000	200	(200)
Net Benefit / (Cost) to Council		100	(100)

**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 advisers. Capita provides a range of services which include:

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

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 Capita, as well as regular contact over the telephone.

11.2. A training session for all elected Members was held in April 2014 and run by Capita to explain the basics and outline the responsibilities that Members have in relation to treasury management. It is Dorset County Council policy to offer training to Members where it is felt to be appropriate and relevant, and further sessions will be arranged in the future.

12. Conclusion

12.1. This report sets out the Treasury Management Strategy for 2015/16 to 2017/18 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 Chief Financial Officer after taking advice from Capita. The Strategy provides for total new borrowing of £14.2 Million over the 3 year period at an additional revenue cost of £1.1 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.

Richard Bates

Chief Financial Officer

January 2015

APPENDIX 1

Dorset County Council - Investment and Credit Worthiness Policy

1. Introduction: changes to credit rating methodology

1.1 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014/15 and / or 2015/16. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

1.2 It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

1.3 Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

1.4 Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

1.5 As a result of these rating agency changes, the credit element of Capita's future methodology will focus solely on the Short and Long Term ratings of an institution, and therefore the Audit and Scrutiny Committee 22 July 2014 recommended to Cabinet that support ratings be removed as a means of assessing the financial strength of counterparties. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that Capita have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, Capita will continue to utilise CDS prices as an overlay to ratings in our new methodology.

2. Investment Policy

2.1 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.

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

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

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

2.5 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.

2.6 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.

3. Creditworthiness Policy

3.1 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.

3.2 Risk of default by an individual borrower is minimised by placing limits on the amount to be lent. These limits use, where appropriate, credit ratings from Fitch, Standard and Poors, and Moodys Credit Rating Agencies. All banks and building societies used by Dorset County Council will have a long-term rating of at least A- and a minimum short term rating of F1. Long-term ratings vary from AAA (the highest) down to D the lowest. Short-term ratings vary from F1+ (the highest) down to D. Individual ratings vary from A (the highest) down to E, and these are now being replaced by viability ratings (aaa the highest, to c the lowest) and estimate how likely the bank is to need assistance from third parties. The limits to be used are set out in paragraph 3.8.

3.3 The Chief Financial Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary, and at least annually. These criteria are separate to that which determines which type of investment instrument are either Specified or Non-

Specified investments as it provides an overall pool of counterparties considered to be high quality that the Council may use, rather than defining what its investments are.

3.4 The minimum 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.

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

3.6 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.

3.7 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

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

i. Sovereign Ratings

3.8.1 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

3.8.2 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	£15 Million
Money Market Funds	AAA	£15 Million (individual)
Money Market Funds Notice Account	AAA	£10 Million (individual)
UK Government including gilts and the Debt Management Account Deposit Facility (DMADF)	n/a	no limit

3.8.3 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. Part Nationalised Banking Groups

3.8.4 The Council will continue to use banking groups whose ratings fall below the criteria specified above if that banking group remains part nationalised, up to a limit of £30m for the group.

iv. Council's own banker

3.8.5 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.

3.8.6 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.

v. Major UK Banks

3.8.7 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.

vi. Use of Additional Information other than Credit Ratings

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

3.9 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%

3.10 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.

3.11 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.

3.12 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-

3.13 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

3.14 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).

3.15 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

3.16 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

3.17 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

3.18 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
Part Nationalised Banking Groups	n/a	£30 Million	5 Years
Council's Own Banker	n/a	£30 Million	Overnight
*(Barclays Bank PLC, HSBC Bank PLC, Lloyds Banking Group PLC and The Royal Bank of Scotland PLC)			

iv. Longer Term Instruments

3.19 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**

3.20 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.

3.21 A summary of the proposed criteria for investments is shown in Annex B, and a list of counterparties as at 19 January 2015 in accordance with these criteria is shown as Annex C to this policy for information.

3.22 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. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

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

Annual Investment Strategy

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

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

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

Strategy Guidelines

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

Specified Investments

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

1. The UK Government (such as the Debt Management Office, UK Treasury Bills or gilt with less than one year to maturity).

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

3. A local authority, parish council or community council

4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.

5. A body that is considered of a high credit quality (such as a bank or building society). This covers bodies with a minimum short term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies.

Non-Specified Investments

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

The Monitoring of Investment Counterparties

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

Summary of Investment Criteria

INVESTMENT POLICY ANNEX B

Paragraph	Criteria	Minimum Rating		Maximum Investment and Exceptions
		Long	Short	
Sovereign Limit for All Loans				
3.8.1	**AAA Sovereign Rating**	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%				
3.8.5	**Council's own Banker**	n/a	n/a	£30 Million
3.8.2	**Money Market Funds**	AAA		£15 Million individual
3.8.2	**Money Market Fund Notice Account**	AAA	n/a	£10 Million individual
Fixed Term Investments				
Limited to the amount of excess balances for that term less a margin of £10 Million				
Up to 6 months				
3.8.2	**UK Government including gilts and DMADF**			Unlimited
Up to 364 Days				
3.8.2	**Any Local Authority**			£15 Million
3.8.2	**Banks & Building Societies**	A-	F1	£15 Million Note that no more than £15 Million can be invested with banks in the same group where the highest rated counterparty has a minimum of these ratings See 3.8.4, 3.8.5, 3.8.6, 3.8.7 for exceptions
3.8.7	**Four Major UK Banking Groups**: Barclays Bank PLC, HSBC Bank PLC, Lloyds Banking Group PLC, The Royal Bank of Scotland PLC (including National Westminster Bank PLC)	N/a	N/a	£30 Million
Up to 5 years				
3.18	**Major Banks & Building Societies**	AA-	F1+	£15 Million per bank Note that no more than £15 Million can be invested with banks in the same group where the highest rated counterparty has a minimum of these ratings See 3.8.4, 3.8.5, 3.8.6, 3.8.7 for exceptions
3.8.4	**Part Nationalised Banking Groups:** Lloyds Banking Group PLC, The Royal Bank of Scotland PLC (including National Westminster Bank PLC)	n/a	n/a	£30 Million

INVESTMENT POLICY ANNEX C

Counterparty list as at 19 January 2015

	Lowest Long Term Rating*	Lowest Short Term Rating*	Money Limit (£m)	Time Limit
UK Banks and Building Societies				
HSBC Bank PLC	AA-	F1+	30	5 YEARS
Lloyds Banking Group:				
Bank of Scotland PLC	A	F1	30 (group) (M)	5 YEARS
Lloyds Bank PLC	A	F1	30 (group) (M)	5 YEARS
Royal Bank of Scotland Group:				
National Westminster Bank	BBB+	F2	30 (group) (M)	5 YEARS
Royal Bank of Scotland	BBB+	F2	30 (group) (M)	5 YEARS
Barclays Bank	A	F1	30 (M)	5 YEARS
Santander UK Plc	A	F1	15	364 DAYS
Standard Chartered Bank	A+	F1	15	364 DAYS
Nationwide Building Society	A	F1	15	364 DAYS
Goldman Sachs International Bank	A	F1	15	364 DAYS
Citibank International Plc	A	F1	15	364 DAYS
Sumitomo Mitsui Banking Corporation Europe Limited	A-	F1	15	364 DAYS
Merrill Lynch International	A	F1	15	364 DAYS
MBNA Europe Bank	A-	F1	15	364 DAYS
UBS Ltd	A	F1	15	364 DAYS
Abbey National Treasury Services	A	F1	15	364 DAYS
Australian Banks				
National Australia Bank Limited	AA-	F1+	15	5 YEARS
Australia and New Zealand Banking Group	AA-	F1+	15	5 YEARS
Commonwealth Bank of Australia	AA-	F1+	15	5 YEARS
Macquarie Bank Limited	A	F1	15	364 DAYS
Westpac Banking Corporation	AA-	F1+	15	5 YEARS
Canadian Banks				

Canadian Imperial Bank of Commerce	A+	F1	15	364 DAYS
Bank of Montreal	A+	F1	15	364 DAYS
Bank of Nova Scotia	A+	F1	15	364 DAYS
National Bank of Canada	A	F1	15	364 DAYS
Royal Bank of Canada	AA-	F1+	15	5 YEARS
Toronto-Dominion Bank	AA-	F1+	15	5 YEARS
National Bank of Canada	A	F1	15	364 DAYS
German Banks				
Landwirtschaftliche Rentenbank	AAA	F1+	15	5 YEARS
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	A+	F1+	15	364 DAYS
KfW	AAA	F1+	15	5 YEARS
Landesbank Hessen-Thuringen Girozentrale	A	F1	15	364 DAYS
Landesbank Baden-Wurttemberg	A	F1+	15	364 DAYS
Sparkassen-Finanzgruppe	A+	F1+	15	364 DAYS
Luxembourg Banks				
BGL BNP Paribas SA	A	F1	15	364 DAYS
Banque et Caisse d'Epargne de l'Etat	AA+	F1+	15	5 YEARS
Clearstream Banking	AA	F1+	15	5 YEARS
Singaporean Banks				
DBS Bank Ltd.	AA-	F1+	15	5 YEARS
Oversea-Chinese Banking Corp	AA-	F1+	15	5 YEARS
United Overseas Bank Limited	AA-	F1+	15	5 YEARS
Swedish Banks				
Svenska Handelsbanken	AA-	F1+	15	5 YEARS
Swedbank AB	A+	F1	15	364 DAYS
Skandinaviska Enskilda Banken	A+	F1	15	364 DAYS
Swiss Banks				
UBS AG	A	F1	15	364 DAYS
Credit Suisse AG	A	F1	15	364 DAYS

APPENDIX 2

Policy of Delegation

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

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

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

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

Audit & 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.