

Report sponsor: Simon Riley, Strategic Director  
of Corporate Resources  
Report author: Simon Riley, Strategic Director  
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## **Strategic Planning – Council Plan and MTFS**

### **Purpose**

- 1.1
  - To update Council Cabinet on the Strategic Context for a refreshed Council Plan alongside the Medium-Term Financial Strategy (MTFS).
  - To recommend a revised Reserves Strategy to promote financial resilience.

### **Recommendations**

- 2.1 To approve the adoption of a Partnership Theme approach for the new Council Plan 2022/23 to 2024/25 as detailed in paragraph 4.1.
- 2.2 To note the strategic finance context for the development of the MTFS for 2022/23 to 2024/25 as detailed in para 4.6 to 4.14
- 2.3 To approve a revised Reserves Strategy (attached at Appendix A) to support future financial sustainability.

### **Reasons**

- 3.1 To develop a Council Plan and MTFS for the financial period 2022/23 to 2024/25, which reflects the needs of the city.

## Supporting information

### 4.1 Strategic Planning for and with the City

This report updates Members on progress in developing the Council Plan and Council's Medium Term Financial Strategy (MTFS) for the 3-year period 2022/23 to 2024/25 and builds on the Council's Recovery Plan, refocusing strategic and resource planning to delivering shared outcomes in Partnership for and with the City.

The Plan sets out our overall vision for the City Council centred around four partnership themes of:

Partnership Theme	Outcome
Green Derby	Making a positive impact on our environment
Vibrant Derby	A reimagined City Centre with culture at its heart
Growth Derby	Creating a modern smart city with jobs and skills for the future
Resilient Derby	Working with communities to reduce poverty and inequalities

These themes have been co-produced and subsequently adopted by the City-wide Partnership Board as the basis for planning, co-operation and collaboration in the future. Within each of the themes are high level outcomes that will shape the delivery of a shared ambition for our people and our city.

In addition to the four partnership themes the Council has an enabling Council programme of transformation and improvement titled '*Working Smarter*', which aims to deliver the modern, effective and value for money public services that local people deserve and will ensure that the Council's finances are manageable and sustainable over the medium to long term.

- 4.2 The City has demonstrated through Covid both its resilience and its ability to work together to support our communities, promote economic growth and to navigate through the most unprecedented times. Our new Council Plan will build on the successes and lessons from this period but acknowledges that in the future the focus of planning for services, the resourcing of services and the working with others needs to change and be focused on outcomes and their impact. The Council Plan (to be issued for consultation alongside the budget) will detail priority outcomes for the next three years and will replace the existing Council Plan 2019-2023. These will be developed and refined, as appropriate, over the Council Plan period based on developing stronger partnership delivery arrangements and better intelligence from the implementation of the Intelligent Council Programme. Any proposed changes will be appropriately reflected within our annual Council Delivery Plan, following consultation with our stakeholders.

- 4.3 Alongside a new Council Plan, the Council intends introducing a portfolio and programme management approach to shape the delivery of services across Council departments, and with Partners. Programmes will be centred around cross-cutting priority outcomes such as 'lower carbon emissions', 'a diverse cultural offer' and 'reduced inequalities, with healthier residents'. During 2022/23, it is planned to transition into new ways of working and reporting based on this approach. This will ensure the alignment of our strategic and operational planning and delivery, maximising our resources and time to making a difference in our shared priority areas.
- 4.4 Alongside the new approach and focused Council Plan, the Council will consult on a new Vision for the Council, which is simply 'Ambitious for Derby – working WITH the city, FOR the city'. This will be underpinned by principle of 'Better Together', which builds on the collaborative way of working that we have seen throughout the pandemic, both internally and externally, and recognises the strengths within our communities.
- 4.5 The new Council Plan 2022-25 will be issued for consultation alongside the MTFP at the end of December, and subject to the consultation will be adopted by Council at the end of February 2021.
- 4.6 **Medium Term Financial Strategy**
- The purpose of the Medium Term Financial Strategy is to provide information to all of its stakeholders on the Council's planned expenditure and financing over the medium term. Source of Council funding has altered in recent years with a greater proportion of overall funding coming from Council Tax and Business Rates and less from Revenue Support Grant. Alongside this the Council continues to experience high levels of demand for its statutory services and the pandemic impact on services, income and resilience. The combination of all of these factors means planning for services against an uncertain national and local context has been challenging.
- 4.7 In February 2021 the Council set a balanced budget for 2021/22 with an identified budget gap for the following two years of £13.7m. The majority of future budget gaps related to the potential for Covid Grants (initially awarded as one-off grants) being reversed out in future years.
- 4.8 During 2021/22 the Council has experienced some significant unplanned increases in demand and costs for its statutory services, this was by no means unique to Derby and can be seen across local government nationally. This however required the Council to implement mid-year two spending review panels to manage spending commitments with the aim to reduce in-year forecast overspends and secondly to reduce the need to build these pressures into the base budget on an ongoing basis going forward. The impact of these panels has already assisted in a reduction in the forecast overspend at Quarter 2.

- 4.9 It is clear across Local Government and locally that the approach to financial planning requires a fundamental shift with a focus on financial sustainability, working in partnership and changing historic budget allocation to align with priority outcomes

The budget process for the next three years has been developed around the four partnership themes and the enabling programme of Working Smarter (detailed in paragraph 4.1). Current budgets have been aligned to these themes and these are detailed in the following diagram.



The Working Smarter theme has £37million aligned to it

The figures quoted are the net figures funded from the Budget Requirement agreed by Council each year. Gross expenditure figures are significantly higher

- 4.10 The budget proposals to be issued for consultation will be categorised into these themes and represent the beginning of a series of interventions and transformation that will allow the budget to be better aligned to the priority outcomes over the course of the MTFS

- 4.11 The Chancellor of the Exchequer announced his Comprehensive Spending Review on the 27<sup>th</sup> October. Within this were a series of headline announcements that will subsequently confirmed and allocated to Local authorities in Mid- December.

In summary Local Government expects £1.6bn in additional spending power in 2021/22. This allocation needs to fund the impact of the new National Insurance levy for Health and Social Care, increase in National Living Wage and the impact of National Pay Award settlements. Individual allocations are still to be announced, however, for financial planning purposes the Council has assumed just over £8 million from the increase in spending power. This is before the additional costs detailed in this paragraph.

Whilst an increase in Core Spending Power is welcome and more favourable than within the MTFS approved in February it is disappointing that at this stage there is no new funding identified for the ongoing impact of Covid on Service demands and costs. As a result the one-off Covid Grants detailed in the Council's budget for 2021/22 have been reversed out, these totalled £11.4 million

The combination of the removal of ongoing Covid funding netted off by the increase in Core Spending Power leaves a significant realignment of the MTFP over the next three years to balance the budget. This is currently being exacerbated by high levels of inflation and potential pay awards

- 4.12 Prior to the announcement of the Local Government Finance Settlement in mid-December the Council financial forecasts are as detailed below

	<b>2022/23 £000s</b>	<b>2023/24 £000s</b>	<b>2024/25 £000s</b>	<b>Total £000s</b>
MTFP Budget Gap (Feb 2021)	11,164	2,503		13,667
MTFP Budget Gap (November 2021)	4,053	4,878	1,687	10,618
(Decrease)/Increase	(7,111)	2,375	1,687	(3,049)
Contribution towards Reserves (included in above figures)	0	4,887	3,887	8,774

The Budget Strategy (including proposed savings to be issued as part of the budget consultation includes the assumption that the Council will seek to contribute to Reserves to provide improved financial resilience and sustainability in the future from 2023/24 (this strategy is detailed in para 4.15 of this report). If these movements are extracted from the table above the net budget gap over the three years of the MTFP decreases from £10.618 million to only £1.844 million over the three years of the MTFS despite the adverse funding and costs movements experienced by the Council. The Budget issued for consultation at the end of December will detail proposals which are proposed for implementation in addressing the budget gap.

- 4.13 The balancing of the budget for 2022/23 is challenging and needs to be considered as part of a more strategic approach across the three-year MTFP period. Budget Planning has identified significant savings and income proposals for 2022/23 and beyond within the five strategic themes detailed in paragraph 4.1. These will be detailed in the budget issued for consultation at the end of December (following receipt of the local government finance settlement).

At this stage it is anticipated (subject to receipt of the Local Government Finance Settlement) that there will be a limited need to utilise reserves (in 2022/23 only) to support the three-year MTFP. These will be replaced and increased with planned contribution to reserves in 2023/24 and 2024/25.

- 4.14 The Council will continue to actively manage cost pressures through spending review panels for at least 2022/23

4.15 **Reserves Strategy**

It is essential that the Council actively plans for financial resilience and sustainability in the medium term. The pressures of increased service demands, in year pressures and the impact of Covid has required unplanned use of reserves (which have been relatively low, compared to other Councils) for many years

- 4.16 A revised Reserves Strategy is attached at Appendix A for approval. This sets out

- (a) An increase in the minimum level of reserves recommended by the S151 Officer
- (b) Improved clarity on the setting up and application of reserves and associated governance

- 4.17. Subject to approval by Cabinet the implications of the revised Reserves Strategy will be factored into the MTFP for consultation

**Public/Stakeholder engagement**

- 5.1 A full public consultation period will commence later in December following the consideration of the full budget proposals by Council Cabinet on the 21<sup>st</sup> December. Statutory consultations for individual budget proposals will be carried out where it is appropriate to do so.

**Other Options**

- 6.1 The Council's policy and budget framework requires Council to adopt a Council Plan and MTFS

**Financial and value for money issues**

- 7.1 As contained within the report.

## Legal implications

8.1 A Council Plan and MTFP are an integral part of the Council's Policy and Budget framework. These plans set out the priorities and outcomes that the Council plan to deliver, for and with the City over the next three years and the resources available

8.2 The plans will be subject to a period of consultation (including with statutory stakeholders) and are scheduled to be approved by Council at the end of February 2022. The Council is required to set a balanced budget no later than the 11<sup>th</sup> March 2022

## Climate implications

9.1 The proposed Council Plan includes a specific partnership theme of Green Derby with a series of priorities linked to sustainability. Carbon reduction, waste, transport etc. However, all the plans and resources of the Council contribute to the Climate Agenda. Key decisions of the Council will consider climate implications in individual reports

## Equalities

10.1 Equality Impact Assessments will be completed as required.

## Other significant implications

11.1 None

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal Finance Service Director(s) Report sponsor	Simon Riley	24 <sup>th</sup> November 2021
Other(s)		
Background papers: List of appendices:	Appendix A – Reserves Strategy	

## **Reserves Strategy**

This document aims to provide an over-arching strategy that defines the boundaries within which the approved budget and Medium Term Financial Plan (MTFP) operate.

### **Level of Reserves**

#### *General Reserve*

The General Reserve & Minimum Level of Reserves should target maintaining reserves at a level above the minimum of 5.0% of the total net revenue budget by 2024/25 and thereafter [The February Budget report had the General Reserve at 3.48%, in line with current policy of reserves between 3 – 5%] The purpose of this reserve is to provide for any unexpected expenditure that cannot be managed within existing budgets. Such expenditure would be one-off and resulting from an extraordinary event. Similarly, the General Reserve should be set at a prudent and not excessive level, as holding a high level of reserves can impact on resources and performance. As such the maximum level of General Reserves will be set at 10.0% of the total net revenue budget.

Authorisation to finance such expenditure must be obtained in advance from the Council's S151 Officer, in accordance with the scheme of delegation. The request should be supported by a business case unless there is clear and necessary reason for urgency. As the net budget position changes and risks are reviewed the level of General Reserve must be monitored to ensure that a minimum level is maintained.

#### *Earmarked Reserves*

Unlike General Reserves earmarked reserves have been identified for specific areas of expenditure where there are anticipated costs that can only be estimated. It is therefore prudent for the Council to identify such areas of expenditure and set aside amounts that limit future risk exposure. Such expenditure usually arises out of changes in policy or where the organisation is working in collaboration with others to provide a specific service. Expenditure relating to earmarked reserves has to specifically relate to the purpose of the reserve. There is no set limit to an earmarked reserve as it is to reflect the level of need required. There should be regular reviews of earmarked reserves to establish ongoing need with any unrequired reserves being transferred to the General Reserve

### **Procedure for Use of Reserves**

The **use of reserves** requires approval of the Council's Chief Finance Officer. All requests should be supported by a business case unless there is an approved process for use. On occasion where an urgent request is being made this should comply with the Council's Constitution and Financial Regulations.

**Monitoring**, the level of reserves is kept under continuous review. The Chief Finance Officer reports on the levels of reserves as part of the Medium-Term Financial Strategy updates together with the Reserves Strategy as part of the budget setting and outturn reports. The current level of forecast reserves is not significant and if called upon will impact negatively on the financial viability and resilience of the Council. Reserves and their usage is carefully planned for and monitored throughout the year.

**Risk Analysis,** Any recommendations that change the planned use of reserves reported within the Annual Budget and Outturn Reports will take account of the need for operational service delivery of the Council balanced against the need to retain prudent levels of reserves. However, there are significant risks, which affect the level of reserves to be maintained, and it is for this reason that a minimum level of 5% of total net revenue budget is set as a target for 2023/24 for the General Reserve.

### **Assessment of Risks**

The Chief Financial Officer should assess at least annually (and report in the Section 25 statement) the individual risks and cumulative risks that inform the level of reserves. Significant risks that should be kept under review include

- Significant unforeseen legal costs
- Risks in being able to achieve the required efficiencies and savings during the year.
- The ability to seek financial assistance from the MHCLG for major incidents
- The need to finance organisational change and redundancies may have an impact on the use of reserves.
- The ability to recover significant overspends by directorates and services.
- Exceptional levels of insurance claims
- The instability of the Financial Markets

### **Strategy Review**

This strategy will be reviewed annually as part of the budget process. During the year changes may occur in the MTFS, which affect this strategy. Such changes will be monitored by the Chief Finance Officer and reported through the financial reporting process.