COUNCIL CABINET
11 October 2023

Derby City Council

Report sponsors:
Councillor Baggy Shanker Leader of the Council and Cabinet Member for Strategy, Governance and Finance
Alison Parkin, Director of Finance

ITEM 11

Report author: Toni Nash, Head of Finance

Medium Term Financial Strategy Summary

Purpose

1.1 To update Council Cabinet on the Medium Term Financial Strategy – MTFS.

Recommendations

2.1 To note the context for the development of the MTFS for 2024/25 to 2026/27 as detailed in the body of the report.

Reasons

3.1 To continue to progress the MTFS for the financial period 2024/25 to 2026/27, every Council must legally set a balanced budget and strategy reflecting income and expenditure over the medium term.

Supporting information

4.1 Introduction

4.1.1 The Medium-Term Financial Strategy provides the financial framework for the delivery of the Council's aims, ambitions and strategic priorities; as set out in the Council Plan. The Council Plan 2022-2025 is currently being reviewed, and it is anticipated that an updated edition will be presented to Cabinet for consideration in December 2023, to align with the Medium Term Financial Plan. The purpose of the Medium Term Financial Strategy is to:

- Provide information to all of the Council's stakeholders on the planning of the revenue and capital expenditure and the financing of that over three years, taking account of both the local and national context.
- Provide the financial framework for the delivery of the Council's priorities and ensure that these drive the financial strategy, allocating our financial resources whilst responding to emerging pressures at both a national and local context.
- Manage and mitigate future budget risks through a longer term planning cycle including reviewing the adequacy of reserves to achieve financial sustainability. It supports affordable, sustainable service delivery through the planned use of revenue budgets, capital budgets, reserves and balances.

4.1.2 The MTFS incorporates key factors such as changes in Government funding, a forecast of the costs of continuing to provide existing levels of service and the resources that are likely to be available to the Council over the period. It also sets out the potential budget gap and the overall size of efficiencies and cost reductions over the medium term.

4.1.3 This timeframe considered in this strategy is three years as it gives a good balance between long term financial planning and having realistic assumptions to be able to work with. This reflects current local government financial planning due to the lack of certainty from continued one-year financial settlements from Government. The funding reforms promised to the sector from 2021/22 have still not been implemented with the settlement for 2022/23 being a rollover of the previous year and although a two year settlement was awarded for the 2023/24 and 2024/25 financial years there is still a reliance on unconfirmed additional funding and grants. This all inhibits the ability to plan in the medium to long term. The financial settlements announced by the Government address short-term pressures rather than long term sustainability.

4.2 The National Context

4.2.1 The financial situation facing local government in England is the most perilous in living memory. In 2018, Northamptonshire County Council issued the first S114 Notice in the sector in 20 years. A briefing paper issued by the House of Commons Library in January 2023 shows that since 2018, nine councils have issued s114 notices and have then gone on to pass an amended budget reducing spending on services.

4.2.2 In September, Europe's largest local authority, Birmingham City Council, was the latest authority to issue a S114, and issued a second two weeks later. In the same week, Derbyshire County Council issued a warning about its financial position, which follows similar warnings from the likes of Kent CC, Hampshire CC, Somerset Council, Devon CC, Kirklees Council, Middlesborough Council, and Coventry and Stoke-on-Trent City Councils, amongst others.

4.2.3 It is evident that the cocktail of over a decade of cuts to local authority funding, rising demand, particularly in social care (both adults and children's), and the more recent societal and economic shocks of the COVID pandemic, energy and food price increases exacerbated by the war in Ukraine, high interest rates and soaring inflation, have pushed a growing number of local authorities to the edge, in terms of their financial sustainability.

4.2.4 Derby City Council is not in imminent danger of being in S114 territory, but it would also be misleading to suggest that our financial position is anything less than the most challenging it has been, since the authority became a unitary council in 1997. The City Council's reserves are a particular area of concern. Cabinet will recall that the 2023/24 quarter one financial monitoring report, forecast the Budget Risk Reserve reducing to zero by the end of the financial year.

4.2.5 It is evident that delivering a balanced budget for 2024/25 is going to be extremely difficult, and further cuts, on top of the £226m made since 2010, will be required. This will have dire consequences for service capacity and quality, and the city has already witnessed increased complaints about services that understandably, the tax paying public expect.

4.2.6 Unfortunately, there are simply not enough resources to meet the expenditure necessary to deliver this expected level of service delivery, but it is inevitable that an organisation that has cut almost £0.25bn from its budget, is not going to be able to provide the level of service it did, prior to these reductions being made. Hence, unless and until, long awaited reforms to local authority funding are delivered, and/or, structural reform to the role and responsibility of local authorities is implemented, this situation will deteriorate further. If those changes are not made, then that may well be the point where most upper tier authorities (Counties/Unitaries/ Metropolitan Boroughs/ London Boroughs) and many district and borough councils, will become financially unsustainable.

4.3 Derby City Councils Financial Context

4.3.1 With the national context in mind, the new administration elected in May 2023, has sort to implement a number of its key manifesto commitments to support communities across the city, including a review of the budget that was set in February 2023. This review has now been completed, alongside addressing some other key priorities, including:

- the appointment of Cabinet members for '**Climate Change, Transport & Sustainability**' and the '**Cost of Living, Equalities & Customer Inclusion'**; reflecting the current local, national and international pressures and opportunities
- working with our partners to progress the **Sustainable Derby Board**
- progressing plans to keep **Ashgate Nursery** operational
- **creating 118 jobs** through Derby City Council initiatives
- participating in the **Derby Property Summit**, which was an event that saw hundreds of people come together to consider how to shape our city for the future by working together, aided by investment, property and development
- hosting the first board meeting of the Transition Team working to design **Great British Railways**
- moving forward with the administrations vision for all the **city's libraries**
- launching **Family Hubs**
- **retaining 'green flag'** status for **six city parks**
- assisting nearly **200 households** through the **Healthy Housing Hub with repairs, improvements, adaptations and advice**
- completing a review of the progress we have made as a city in delivering the **Derby Cost of Living Strategy**, helping us to agree the actions we need to take for the rest of 2023/24
- **increasing the number of carers who now foster for Derby City Council to 143,** which is an improvement of 30% (33)
- implementing a **new financial system.**

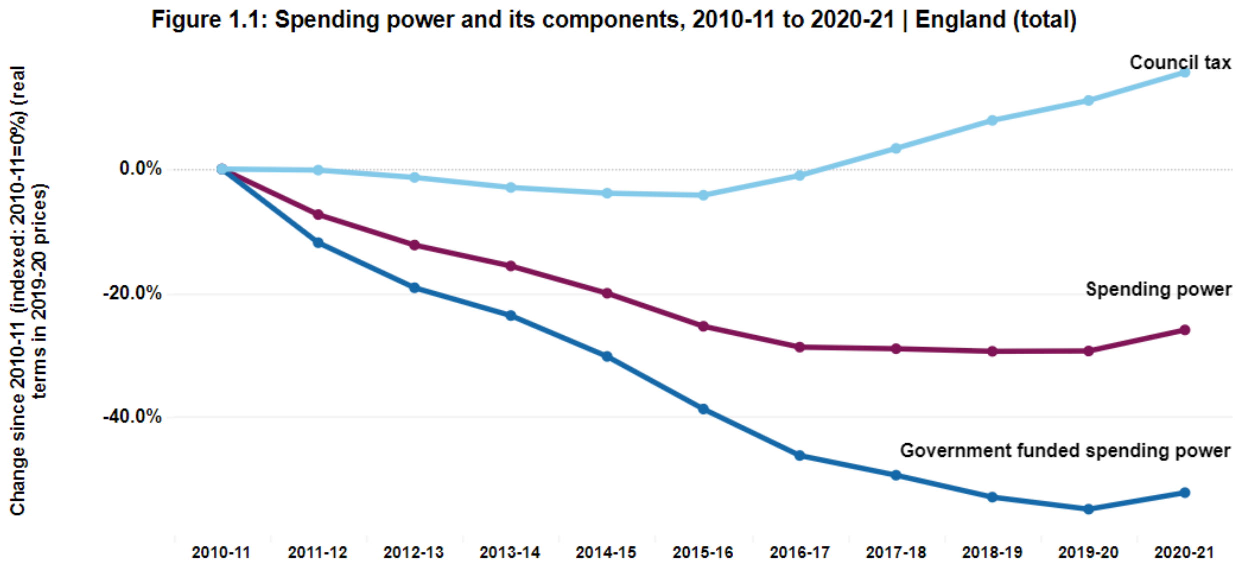
The financial implications of these and other manifesto commitments, will be factored into the planning process for the 2024/25 budget.

4.3.2 The Council's total spending power is determined by its income levels. Government grants now only account for circa 37% or £106m of the authority's income, and there is a much greater reliance on locally generated revenue i.e., business rates and council tax. For 2023/24, these two revenue sources combined, provided an estimated £178.6m towards the funding of services.

4.3.3 The Chancellor of the Exchequer, Jeremy Hunt, on the 5 September 2023 announced that he will present the Autumn Statement 2023 to Parliament on 22 November. The Office for Budget Responsibility (OBR) have been commissioned to prepare an economic and fiscal forecast to be presented to Parliament alongside his Autumn Statement.

4.3.4 The provisional Settlement for Local Government for 2023/24 was published on 19 December 2022, alongside a Written Ministerial Statement. The final version of the Settlement was published on 6 February 2023. The current assumption is that the 2024/25 settlement will align with similar dates.

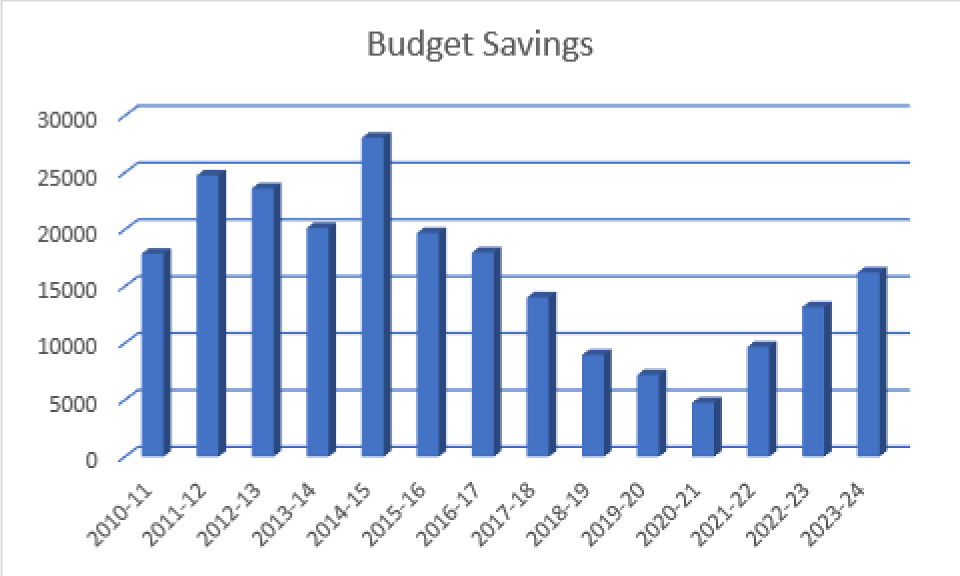
4.3.5 As previously outlined, the financial model for Local Government has shifted with a greater proportion of overall funding coming from local taxes, council tax and business rates and less from direct Government support through the Revenue Support Grant. The Council, along with other local authorities, has faced reductions in core Government funding from 2010/11 to date and the calculation of the core spending power of local government has more recently changed to include council tax assumptions and is not limited to general Government revenue grant and business rates. This is a very significant change and emphasises the importance of local taxation in the sectors funding model.



4.3.6 The Council's real term fall in spending power is a result of a reduction in central Governments fall in revenue support grant and although other grants have increased these come with specific grant conditions to fulfil ministerial priorities.

4.3.7 Cumulative inflation over the period is around £61m, including £8.7m in 23/24 for pay and utility inflation alone. Demand and cost increases have accumulated to £212m, and together, these factors , have driven the need for the Council to make unprecedented levels of savings.

4.3.8 Derby City Council Savings since 2010/2011:

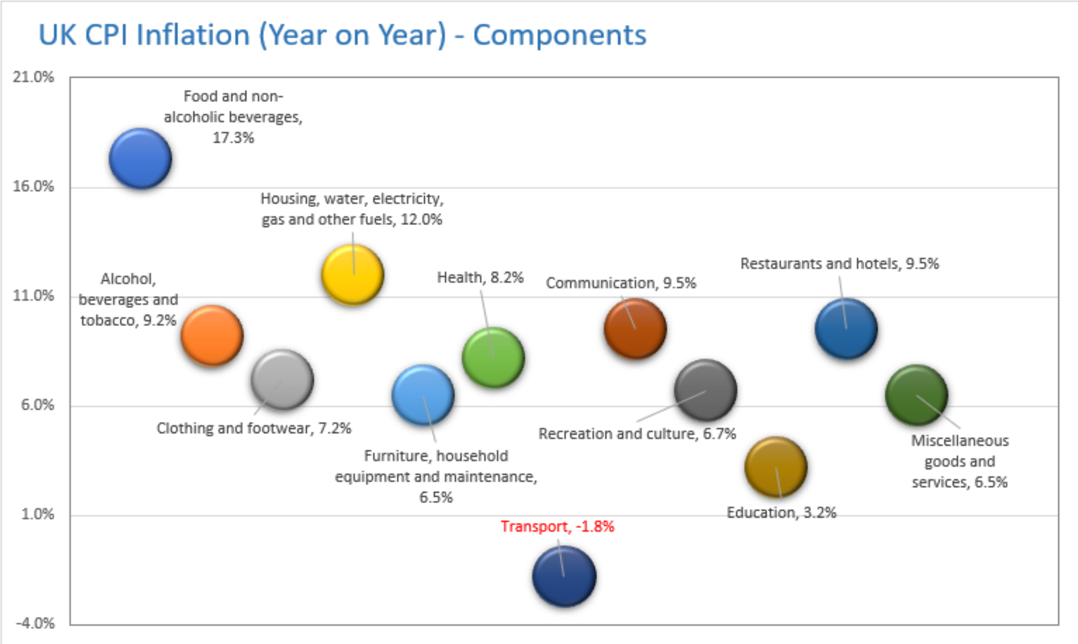


The graph shows that the savings made by Derby City Council, over the last 14 years, total **£225.902m**.

4.3.9 The rise in inflation including potential national living wage pressures has and will continue to have an adverse effect in real terms on the core spending power of councils. These inflationary increases, including pay award costs, have caused a further financial shock to the sector, and have not been recognised in the Government funding settlements.

4.3.10 The Local Government Association (LGA) estimate that Councils in England face a funding gap of almost £3 billion over the next two years just to keep services standing still with inflation adding up to £1.5 billion by 2024/25. This does not include addressing existing underfunding in areas such as the adult social care provider market, children's social care and homelessness nor does it include funding to improve or expand services. In addition, the long-awaited changes to the distribution of business rates remain under review by Government.

4.3.11 Inflationary increases are causing significant strains not only for the Council in providing its services but also a significant financial impact on the residents of our City.
The below table shows CPI at June 2023:



4.3.12 At this time in the budget planning cycle, there are still a number of unknown elements to the budget, in particular the continuation of some additional funding for Adult Social Care. This causes significant challenges and despite adult social care funding reforms being delayed the expectation of the sector provides a significant pressure to the councils as they prepare for the move to “fair cost of care”. This is a significant risk to the Council.

4.3.13 DLUHC published a policy statement ahead of the 2023/24 LGFS. It states that “the core settlement will continue in a similar manner for 2024/25. The major grants will continue as set out for 2023/24: Revenue Support Grant will continue and be uplifted in line with Baseline Funding Levels; the Social Care Grant and other social care grants will increase as set out at the Autumn Statement.”

4.3.14 The national quota for the MSIF (Market Sustainability and Improvement Fund) and MSIF Workforce grants for 2024/25 are £845m and £205m respectively, and the total value of the discharge funding available to LAs will increase from £300m in 2023/24 to £500m in 2024/25. Individual LA allocations for all of these are still to be confirmed. The Council is not aware of any DLUHC plans to change the distributions of the Better Care Fund or Social Care but they also have not publicly confirmed what these distributions are.

4.3.15 The Council’s Capital Programme is under significant financial pressure. Inflation costs in the construction industry remains high and reduced capacity hinders deliverability. The council will continue to review capital commitments. This could impact on the affordability of schemes funded by external grant for example, as the council would have to assess if it could afford any expenditure above the grant allocation.

4.3.16 In March 2023, the Council set a balanced budget for 2023/24 with an identified budget gap for the following two years of £17.260m. The factors outlined in this report have increased the latest forecast to a gap of **£14.708m** in 2024/25 and an estimated £22.767m by 2026/27. The ongoing MTFS process will change these predictions as funding intelligence is updated and new savings assumptions added. The forecast overspend at Qtr.1 is £6.091m which, if this were materialise, will deplete reserves, to the point that could put at risk the financial sustainability of the Council.

4.3.17 This means that for the period of the MTFS there needs to be continued significant focus on sustainability, including reducing, redesigning services and potentially ceasing some planned expenditure in the medium term.

4.3.18 Alongside these challenges the Council continues to experience high levels of demand for its statutory services exacerbated by market failures to provide services, particularly in the adult and children's social care sectors with a national cost of living crisis. Over the past 5 years these overspending budgets have had a detrimental impact on the Council's level of reserves and inhibits the ability to deal with significant financial shocks

	2022/23	2021/22	2020/21	2019/20	2018/19
	£m	£m	£m	£m	£m
Outturn over/(underspend)	13.665	1.265	(1.892)	6.195	5.434
% attributable to social care	83%	100%	0%	89.78%	100%

4.3.19 **Adult Social Care**
Continued rising demand and costs for care and support, have combined to increase demand for adult social care services within local government while the Adult Social Care market is under stress. The Care England conference in London this year in March, revealed that one third of adult social care providers, including half of smaller organisations, have considered exiting the market in the past 12 months.

4.3.20 Based on a representative survey of care providers in England, one report describes how cost pressures, including sky-high utility bills – rising by as much as 500% for some providers – and increasing, unfunded workforce pay resulted in 82% of providers being in deficit or facing a decrease in their surplus in 2022.

4.3.21 Over 400,000 people rely on care homes nationally and more than 800,000 receive care at home. However more than 165,000 adult social care jobs remain vacant, including more than one in 10 care worker posts. Care providers are reporting that inability to recruit staff has negatively affected their service and many have stopped admitting new residents as a result.

4.3.22 **Children's Social Care Demand**
Four in five of England's largest councils overspent on their children's services budget last year, with local authorities facing a surge in young people requiring care in the wake of the pandemic.

4.3.23 Councils in county areas saw some of the largest increases in England for referrals to children's services, which are done when there are concerns about a young person's safety and wellbeing. Between 2020/21 and 2021/22, there was a surge in over 20,000 extra referrals compared to a decrease of 1,400 year-on-year between 2018/19 and 2019/20, just before the pandemic struck: an increase of 8.8%. Councils say referrals are continuing to remain high due to the cost-of-living crisis.

4.3.24 The cost-of-living crisis is pushing more families into poverty, and children's services are facing unprecedented demand amid the national funding crisis. There continues to be significant demand for children's social care and the complexity of needs is escalating in response to the multi-faceted challenges children face in their day to day lives.

4.3.25 Nationally the number of children in local authority care increased by 1,079 young people over the same post-pandemic period: a 10.1% year-on-year rise. This contrasts with the months directly before the pandemic, when there was a decrease of 140 children requiring local authority care in 2019/20. Latest available figures show that nationally, the number of children in council care is at a record high of 82,167 in 2021/22 – up from 66,180 in 2011/12. In Derby, our demand management strategies are paying dividend, we are seeing our lowest numbers of looked after children since 2018, the costs however are by far outstripping these successes.

4.3.26 Despite the best efforts of local authorities, the number of foster carers has fallen dramatically year-on-year. The number of applications received by councils across England totalled 3,665 in 2021/22, down from 5,095 in 2020/21: a 28% decrease. This reduction leads to a reliance on independent fostering and private homes placements which are significantly more expensive.

4.3.27 **Other Services and Factors**

The city is experiencing increases in demand for many services. Whilst the Council has implemented action plans, demand management strategies and working in partnership across the City (particularly in relation to targeted areas, such as the cost of living crisis) there remains uncertainty over demand for services, and especially statutory services. The combination of these factors means planning for services against an uncertain national and local context is a challenge.

4.3.28 A key pressure where we have seen increasing levels of demand and uncertainty over the last 12-months has been in relation to housing and housing support. The National Federation of ALMO's recently published the findings of a survey, which drew on data from 28 local authorities and ALMOs across England, who collectively manage around 294,000 local authority homes. Between March 2022 and March 2023, the findings showed:

- four in five landlords reported an increase in rent arrears
- a 4% rise in the total number of households in arrears
- an 11% rise in the total amount owed, increasing to +£60 million
- that the average amount due per household rose from £427 to £527 (+23% - approximately an additional week's rent)
- Universal Credit and the way it is paid are key contributors to arrears
- that 75% of landlords are seeing increased local homelessness and increased pressure on housing advice services
- there was increased food bank use by tenants
- there was increased demand for support services and hardship funds.

4.3.29 In July 2023, there were 228 assessments for people believed to be homeless / threatened with homelessness. This was an increase of 26 when compared to June 2023 and an increase of 40 when compared to July 2022. Furthermore, the number of families placed in bed and breakfasts was the highest recorded since pre-April 2020.

4.3.30 Recruiting the necessary staff for essential service provision also remains a challenge. The knock-on effects of unsustainable council finances are subsequently causing significant issues for councils finding and retaining the right staff. Recruiting the staff necessary for essential service provision is an issue. Without well-qualified and trained staff, councils cannot provide the services that millions of people around the country rely on.

4.3.31 The backlog in service provision caused by Covid still remains an issue. However, Local government finances were in need of reform before Covid, the problem is now exacerbated.

4.3.32 **The Budget Process**
Medium Term financial planning is a continuous activity. The Council has strong and robust financial planning in place supported by a monitoring and review process including adherence to the CIPFA Financial Management Code.

4.3.33 Engagement, briefings, presentations and updates to teams and individuals have been ongoing throughout the budgeting process including Council wide engagement through Directors Forums, Corporate Leadership team meetings, Senior Leadership forums and Employee conferences. The Council is aware of the challenges facing them and is responding accordingly.

4.4 The MTFS encompasses:

4.4.1 **Reserves**
The management of risk and promoting financial resilience is a key principle of our budget strategy and this has helped facilitate our medium term financial plan. Key to the authority's financial resilience are the usable reserves, which if needed to fund any out-turn budget pressure would be lower than advisable by the Section 151 officer and would need a further plan to replenish.

4.4.2 Reserves are an integral part of prudential financial management in local authorities, including their ongoing ability to meet the balanced budget requirement. Reserves should not be used on an on-going basis to cover shortfall in day-to-day expenditure.

4.4.3 Legislation does not prescribe how much the minimum level of reserves should be. The Section 151 Officer is tasked with recommending the minimum level of reserves required as part of the budget setting process having regard to elements of risk in the Council's finances. The General budget requirement is recommended to be between 3 and 5%.

4.4.4 The reserve strategy continues to be a priority with a focus on a reserves review using reductions and reprioritisations of any legacy commitments. Addressing emerging commitments and flexibly using reserves is a strategy to ensure sufficiency of reserves in the short to medium term. The projected overspend of £6.091m reported in Qtr.1 financial monitoring report to Council Cabinet requires a further draw down of reserves. If current planned overspend mitigations are not successful, this will have a material impact on the Council's financial resilience.

4.4.5 The reserves strategy in the current MTFS (approved March 2023) included a strategy to replenish the reserves by £10.279m.

2024/25

£5.640m split:

£2.640m to GF reserves
£2.0m to budget Risk Reserve
£1.0m to PFI reserve (cost of change)*

2025/26:

£4.639m split:

£2.639m to GF Reserve
£1.0m to Budget Risk Reserve
£1.0m to PFI Reserve (cost of change)*

*In line with the latest MTFP, the cost of change replenishment has a further 2 years (2026/27 and 2027/28) to run at £1m per year.

4.4.6 This planned contribution will be reviewed throughout the summer and autumn in line with the ongoing MTFP process and the local government finance settlement.

4.5 Capital

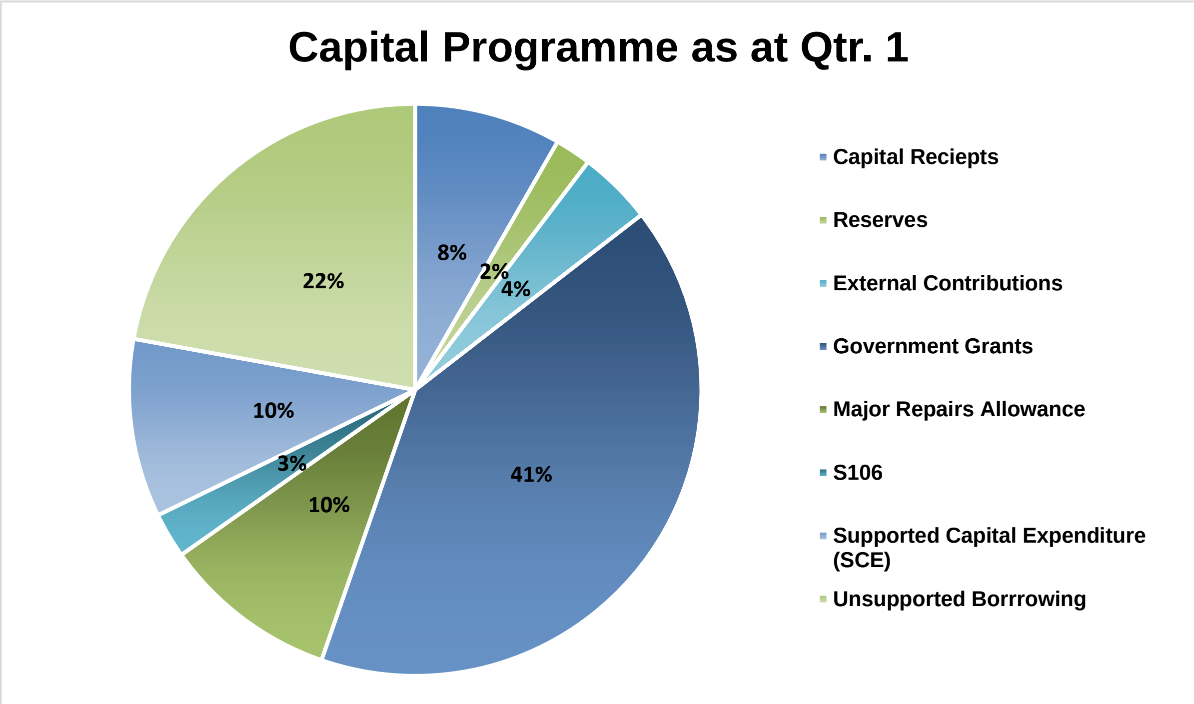
The purpose of the Capital Strategy is to drive the authority's capital investment ambition whilst also ensuring appropriate capital expenditure, capital financing and treasury management within the context of the sustainable delivery of services. Capital expenditure is where the Council spends money on assets, including property or vehicles that will be used for more than one year. The Capital Strategy supports the Council Plan which is our vision for Derby.

4.5.1 The Councils Plan incorporates the Capital ambition of the city:

<u>Council Plan</u>
Over the last year, we have strengthened our assurances pertaining to the delivery and achievement of our capital ambitions through our Programme Management Office (PMO). An updated Council Delivery Plan for 2023/24 was approved by Cabinet in September 2023, which set out our agreed priority projects for the 12-months from April 2023 to March 2024. Our capital ambitions and programmes will continue to be reviewed in the context of the current financial challenges of the Council, as we are also working to review and update the Council Plan.

4.5.2 Slippage due to the legacy and continued impact of Covid, the availability of contractors and rising inflation costs has resulted in the Council being able to continue to consider reprofiling the allocations in some areas in order to address backlogs and plan a way forward within the resource envelope.

4.5.3 The original approved Capital Programme including 2022/23 outturn slippage was £273.095m. The capital expenditure forecast as at Qtr. 1 is £225.938m. The funding profile of the 2023/24 capital programme is illustrated below:



4.5.4 The future programme in the short term will focus on reducing the borrowing requirement of the Council to maintain an affordable and sustainable capital programme and avoid where possible the cost of increasing borrowing and associated borrowing rate increases which impact on the revenue budget and earmarked reserves.

4.5.5 Strategic teams are working together more collaboratively to provide a programme that effectively delivers for the Council and enables longer term planning – build 5 + year programmes.

4.5.6 Pipeline schemes and ambitions of the Council will be considered to either reduce, reprofile or discontinue in the short and medium term in order to resize the programme to fit the anticipated funding available.

4.6 Medium Term Financial Strategy – Budget Approach

The latest summary financial position before the indicative funding announcement in the Autumn Statement is outlined below:

Summary MTFS	2024/25 £m	2025/26 £m	2026/27 £m
Published MTFS Year budget gap	**8.516**	**17.260**	**17.260**
New gap bf	**-**	6.192	5.413
New Pressures or pressure reversals	5.622	(1.103)	3.574
Additional Pay Inflation	2.700	1.700	5.600
Additional other inflation	-	-	2.400
Savings Review	0.340	-	
Estimated Funding Changes	(2.470)	(1.376)	(11.480)
Latest Estimated Budget Gap	**14.708**	**22.673**	**22.767**

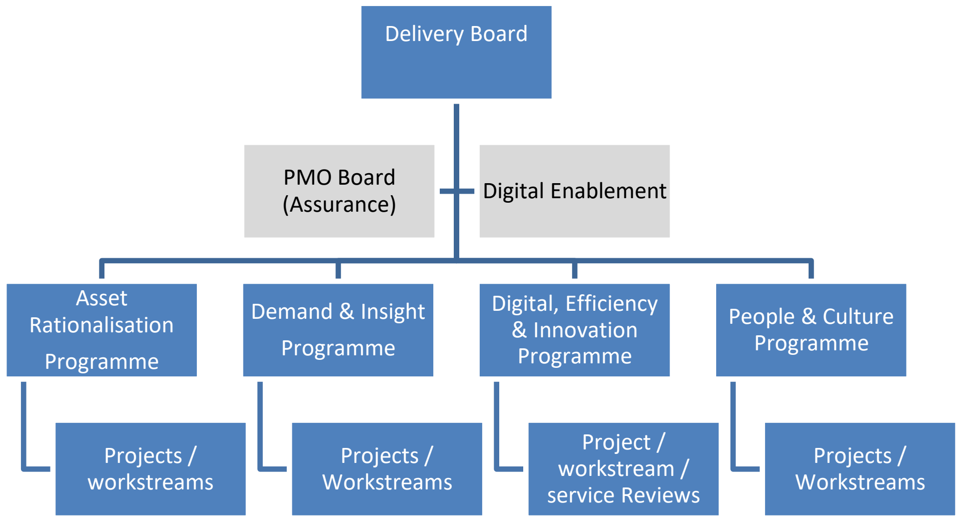
Preparing saving proposals of this magnitude is extremely challenging. The Council, whilst still ambitious for the City, will need to propose significant reductions to its expenditure in order to be sustainable. Intelligence around further funding assumptions will be built into the modelling, as necessary. The model will be updated with new robust savings opportunities once finalised to close the gap and enable the council to set a balanced budget in 2024/25. In addition, new and existing pressures will continue to be scrutinised through the budgeting process. Risks in the MTFS process are outlined in Appendix 1.

4.6.1 **The Delivery Board**

Delivering a sustainable Council will not be achieved through continued salami slicing of services, it will need to challenge itself to deliver value for money services by being cost effective by working more efficiently through being ambitious and innovative. The Council's strategy to achieve this is through the launch of the Delivery Board. This Board has been established to support the MTFP and build upon the way we work with our colleagues, communities, councillors, and partners to maximise our resources and do the best for our City. By working better together across the Council and with our partners we are:

- Championing change
- Working across organisation and community boundaries – led by individuals, aspirations, and needs
- see our communities and individuals as a strength and help unlock their potential
- develop resilience by using the strength of combined partnerships to support communities
- work together to identify resources and recognise our collective skills and reach

4.6.2 Structure and Governance of the Board



4.6.3 **Asset Rationalisation Programme**

The programme aims are to:

- optimise use of the Council House, both as the Council's primary office location and as a public sector hub in the city.
- consolidate and co-locate teams in single, optimal locations, to enable more efficient and effective working across services and better outcomes for citizens.
- allow the Council to rationalise the number of physical assets it holds and give clarity of maintenance and operating costs for the future.
- Maximize the use of appropriate council assets to the benefit of local communities and ensure value for money.

4.6.4 **Demand and insight Programme**

The programme aims are to:

- Review and understand the demand required on each service area
- Identify opportunities for improvements for citizens who require support from the Council and support with our partners
- Working collaboratively to develop solutions to reducing demand on our services, improving the customer journey for the people of Derby.
- Review access to services across Derby City with our partners
- Utilise Digital technology to improve services and processes for the citizens of Derby

4.6.5 **Efficiency and Innovation Programme**

The programme aims are to:

- Identify and progress opportunities to reduce spend across the council
- Commission Service Reviews and support identifying and developing improvements to services
- Review commissioning and procurement activity

4.6.6 **People and Culture Programme**

The programme aims to build on working Better Together to:
Internally

- Continue talking to each other
- Build relationships
- Reduce silos
- Working together
- Co-producing solutions

Externally

- Work alongside partners and communities to empower people – offering help and advice
- Listening and understanding how we run our services (and if they're better delivered by someone else)

4.6.7

> **More can be achieved if we work together.**
>
> By sharing resources, skills, ideas, and experience, people and organisations can make a bigger and more positive impact on everyone who lives, works, visits and invests in Derby.

4.7 Council Tax

Council Tax continues to be subject to significant central control, much of which is outlined in primary legislation.

4.7.1 The Localism Act 2011 makes provision for the Council and our council tax payers to have the power to instigate a local referendum on local issues and to veto excessive council tax increases.

4.7.2 The MTFS approved in March 2023 proposed a Council Tax increase of 4.99% in 2024/25. It should be noted that Government core spending calculations are based on council's maximising their council tax levies.

4.7.3 The Council recognises the impact that Council Tax has on its local residents and will always take their ability to pay into consideration when setting Council Tax levels. Clearly, any decisions on setting future Council Tax levels will be considered each year through the budget process.

4.8 The Treasury Management Strategy

4.8.1 The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Councils treasury management strategy in the Medium Term.

4.8.2 The Treasury Management position is influenced by the Council's capital plans and their funding. These capital plans provide a guide to the borrowing need of the Council. Over the Summer and Autumn, the capital programme will be reviewed and reduced where possible to lessen the revenue impact on the borrowing requirement of the Council from increased interest rates

4.8.3 Planning for Treasury management requires longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash will involve arranging both long or short-term loans or using longer term cash flow surpluses. On occasion debt previously drawn may be restructured to meet the Council's refinancing risk or cost objectives. The Council has for many years avoided the need to long term borrow by using cash flow surpluses – the Council has now moved into a need to borrow position and this will be incorporated into the MTFP as appropriate.

4.8.4 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below the CFR, known as internal borrowing.

4.9 Other areas to consider

4.9.1 Housing Revenue Account

This MTFS is primarily focussed on the Council's General Fund. A sperate process is in place for updating the Housing Revenue Account Business plan which is published at the same time as the General Fund budget in February each year. The financial position of the HRA remains very challenging and work will continue to address these financial challenges and to fund the investment required to increase supply and improve the condition of the existing stock.

4.9.2 Schools Funding

A separate process is also in place for the funding of schools including early years and those services supporting children with additional educational needs. The Dedicated Schools Grant, DSG, had a deficit carry forward of £4.443m and a DSG management plan has been submitted to the Department for Education (DfE) outlining the plans for financial recovery.

Public/Stakeholder engagement

5.1 A full public consultation period will commence later in the year following the consideration of the full budget proposals by Council Cabinet which is anticipated to be in 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 budget framework requires an MTFS – No other options have been considered,

Financial and value for money issues

7.1 As contained within the report.

Legal implications

8.1 An MTFS is an integral part of the Council's Budget framework.

8.2 The plans will be subject to a period of consultation (including with statutory stakeholders) and are scheduled to be approved by Council in February 2024. The Council is required to set a balanced budget no later than the 11th March 2024.

Climate Implications

9.1 None directly arising from this strategy – however all expenditure and schemes will need to consider the Climate Change Action plan approved at Council on the 15 June 2022. Individual climate assessments will be undertaken on specific proposals as required.

Equalities Implications

10.1 Equality Impact Assessments will be completed as required.

Socio Economic Implications

11.2 Contained within the body of the report.

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal	Olu Idowu – Head of Legal	02/10/2023
Finance	Toni Nash – Head of Finance	29/09/2023
Service Director(s)	N/A – see below	-
Report sponsor	Alison Parkin – Director of Finance	29/09/2023
Other(s)		

For more information contact:	Toni Nash: Toni.Nash@derby.gov.uk
Background papers:	None.
List of Appendices:	Appendix 1 – Risks to consider

Risks to consider – the list is not exhaustive **Appendix 1**

Risk Planning

As with any plan or forecast the risk of variances and uncertainties exists. Careful planning can reduce risk but the Council must be aware of the potential variations that can arise and have an identified strategy for dealing with resulting pressures. The risks to the MTFP can effect in year or future years' budgets. To avoid earmarking funds in contingency budgets that may not be required the Council first considers offsetting variances within service budgets prior to a call on reserves.

The Section 151 officer reviews the appropriateness of reserve levels to mitigate risk in the Report on the Robustness of Estimates and Adequacy of Reserves. Longer term planning risk and changes to future funding assumptions are continually reviewed and updated in the ongoing MTFP.

Funding Risks

Central Government Grants – Central Government funding is currently on an annual basis and uncertainty remains over other specific grants which does not aid the MTFS process. The settlement funding relies on local taxation which is not without risk in the current climate. The current plan reflects reductions in grants based on previous years' activities and known intelligence.

Business Rates Revaluation – As the value of business rates retained in Derby is below the Government's assessment, the Council receives a top up grant. The revaluation of Business rates and multiplier change will affect the total rates yield and therefore the amount retained. This process has been on hold but may affect the MTFS – any known intelligence will be incorporated into the process on an ongoing basis

Retained Business Rates – Volatility may result in lower levels of business rates than currently forecast. The key risk area is appeals and bad debts as they are unpredictable and therefore difficult to forecast. The Council does hold a provision for successful appeals and bad debts.

Fair Funding Review – The Government is reviewing each council's need to spend on services, with a view to redistributing funding. The review has been delayed – initially as an impact of Covid. The review is in line with the move for Councils to retain more business rates and become less reliant on Government grant. There may also be the need for some changes and transfer of responsibilities for services to be delivered. It is not expected in the medium term at time of writing however any intelligence will be added to the plan as appropriate.

Prior Year Risks

Budget Monitoring - the budget for 2023/24 required significant permanent budget savings of £16.196m to be delivered to bring the budget into balance. The risk of not delivering these savings is being monitored and reported to Cabinet. Risk within these plans must be mitigated by directors owning and delivering their savings commitments or alternatively identifying alternative delivery savings within appropriate timescales.

Cost Change Risks

General Inflation – The current Medium Term Financial Plan includes a range of inflation assumption based on the latest intelligence. However, levels of inflation will continue to be monitored to assess the level of risk and how any such risks could be in the first instance, addressed within existing budgets or built into future years of the MTFP.

Energy and Fuel Price Increases – this area of inflation has been particularly high and will be closely monitored.

Pension costs – the cost of pensions is reviewed regularly. Any changes in legislative requirements or repayment terms to address the pension deficit could affect the MTFP.

Demand Led Services – The MTFP includes pressures for demand led services, including Social Care demographic changes. These forecasts are based on official demographic statistics and local, national intelligence and will be refreshed accordingly.

Treasury Management Risks - The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

Capital

Risk Management – Capital

Capital projects require careful management to mitigate the potential risks which can arise. The effective monitoring, management and mitigation of these risks is a key part of managing the capital strategy, with escalation to the strategic risk register as appropriate.

Inflation Risk

Construction inflation over and above that budgeted by the Council's professionals and advisers and built into project budgets could impact on the affordability of the capital programme. This is mitigated through the provision of contingencies on the larger projects updating and monitoring estimates regularly and reported to the relevant programme boards as they change. Fixed priced contracts are also used to mitigate this risk.

Change In the Law Risk

Capital schemes need to comply with the latest statute and regulations which can change leading to an impact on construction costs. Awareness of new legislation will mitigate this risk.

Market/Commercial Values

The Council's capital programme relies on commercial activity as a key supporting strategy. This involves income generation form capital receipts from property sales. The Council may commit to large projects, property acquisitions or other forms of expenditure on the basis of further business case assumptions about market value of future asset or economic values. Should the market move then these assumptions can become inaccurate which could mean financial loss. The risk should therefore be managed through contingencies where possible.

Project Risks
Project risks are those that relate to the delivery of capital projects which in many cases can be controlled, influenced or directly mitigated in ways other than making contingencies available. These risks would mostly be related to unforeseen project delays and cost increases which could arise from a range of circumstances. The effective management of these risks is mostly linked to the following:

- **Supplier Financial Stability**
  Construction companies and developers contracting with the Council would, if they experience financial instability, pose a significant risk. They may not be able to raise finance to cash flow operations, any potential insolvency process could lead to a costly overall impact on budget, the Council could suffer financial loss and any defects or other issues may not be resolvable as anticipated. To mitigate; the Council should carefully consider the financial robustness of any contractor and request appropriate financial standing assurance and support wherever possible.

- **Effective Business Case Development**
  Ensuring that a robust business case is developed with cash flow forecasts, robust designs and accurate profiling are essential to effective business case development and if undertaken properly should be the cornerstone of a project's success. Accurate business case development means a smoother progression to a project completed on time and to budget.

- **Risk Management**
  Projects are required to maintain a risk register. Risk registers are aligned with general guidance on risk review.

- **Highlight Reporting**
  Major projects within the programme are required to produce a project report to the appropriate boards on a quarterly basis to aid the board in monitoring progress and risks on an ongoing basis.