



## **Medium Term Financial Strategy 2016/17 to 2018/19**

### **SUMMARY**

- 1.1 Due to the Government continuing to cut local government funding, the Council is forced to make significant changes to its budget, which will impact on our residents.
- 1.2 With the critical financial position facing the organisation, the Council is no longer capable of affording the services it has provided for many years. Many of these services will have to stop unless they are provided externally and at no cost to the Council. The Council is on a forecast trajectory to only be able to provide statutory services by the end of the Medium Term Financial Plan - MTFP- and these will have to be at a greater level of risk.
- 1.3 The Council has already delivered £116m of savings since between 2010 and 2015, with a further £48m to deliver between 2016 and 2019. As the Council's budget decreases, and is redirected to address pressures and pay for statutory service areas, the ability to deliver savings of this level places the Council in a critical financial position.
- 1.4 Local Government is being continually impacted by reducing levels of funding, no funding to address inflationary pressures, underfunding to meet new legislative burdens and increasing demand for our services, at a time when some other public services are being protected.
- 1.5 The Council has previously evidenced that the level of funding it receives is not aligned with our need to spend and the Council has had much needed funding totalling approximately £11m withheld by central government. The impact of this position is now becoming more critical, as the ability to meet our budget gap becomes more difficult.
- 1.6 This report outlines the Medium Term Financial Strategy - MTFS - for the revenue and capital budget over the three year period 2016/17 to 2018/19. The MTFS sets out the Council's strategic approach to the management of its finances. It details the resource projections for the forthcoming three years, the financial challenges that the Council faces and the approach planned to meet the priorities set out in the Council Plan. It also comments on the significant risks facing the Council in the forthcoming years and explains what the Council is doing to reduce these risks.
- 1.7 The purpose of the Medium Term Financial Strategy is to ensure that the overall vision, objectives and outcomes sought for the local community are affordable within the resources that are available or likely to be available in the medium term. The

MTFS is also designed to ensure the Council continues to maintain a stable and sustainable budget capable of withstanding financial pressures. This position is becoming more difficult as funding continues to reduce at the same time as pressures are escalating.

- 1.8 Each year there is a short-term requirement to prepare an annual budget and set the Council's Council Tax. The achievement of the Council's longer term objectives, however, requires service and financial planning to be undertaken over a longer period. The MTFS therefore looks to take into account the medium term implications of the key issues facing the Council and also examines longer-term considerations.
- 1.9 The Council's Medium Term Financial Strategy should ensure that any budgetary decisions are based on the priorities for the city. The 15-year Derby Plan sets out the long term priorities for the city. The Plan shows how we will work with partners to deliver outcomes for local people.
- 1.10 The Council has been consulting with the public and partners on a broad scale since the launch of the Big Conversation in 2013, supported by local partners and community groups. The Budget Simulator, a tool to allow participants to set the Council's budget has been introduced. Last year there were approximately 10,000 participants and approximately 1,000 completions of the Budget Simulator. The simulator is currently open and available on the Council's website.

## **RECOMMENDATIONS**

- 2.1 To endorse the Council's Medium Term Financial Strategy for 2016/17 to 2018/19 and recommend that Full Council approve this Strategy.
- 2.2 To note the budget risks associated with the MTFS, as set out in section 8.
- 2.3 To note the estimated financial position and funding gaps for 2016/17 to 2018/19, and the assumptions included within these forecasts, as set out in section 10.
- 2.4 To approve the key principles underlying the budget process outlined in section 11.
- 2.5 To approve the proposed financial methodology to identify service savings over the next three years, as set out in section 11.
- 2.6 To approve the recommended approach to public consultation on the budget to increase engagement and encourage community action, as set out in section 15.
- 2.7 To approve the outline timetable set out in paragraph 15.5.

## **REASONS FOR RECOMMENDATIONS**

- 3.1 To gain Cabinet approval to the approach to formulating the budget plan for 2016/17 to 2018/19.
- 3.2 The Council is required to set balanced revenue and capital budgets for 2016/17 by

March 2016. Under the Prudential Code established by the Local Government Act 2003, it is also required to demonstrate the affordability of its revenue budget for the two subsequent financial years, after taking into account its plans for capital expenditure.

- 3.3 To gain Cabinet approval for the budget timetable, to ensure that the Council can prepare a balanced budget in accordance with statutory deadlines.
- 3.4 To comply with statutory obligations in respect of consultation, to ensure positive engagement with the trade unions and to provide clarity for employees.



**COUNCIL CABINET**  
**11 November 2015**

Report of the Chief Finance Officer

<b>SUPPORTING INFORMATION</b>
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**4. Introduction**

- 4.1 Each section of this report deals with the various elements that require consideration in determining an appropriate Medium Term Financial Strategy for the Council. These key areas are -
- the Council's current Medium Term Financial Plan - MTFP - for 2015/16 to 2017/18, outlined in section 4
  - the current national context and financial climate, described in section 5
  - local issues facing the Council, in terms of demographic pressures and other local factors, discussed in section 6
  - forecast Government funding for 2016/17 to 2018/19 and potential volatility, outlined in section 7
  - risk planning, outlined in section 8
  - revenue reserves and contingency budgets, outlined in section 9
  - the draft Medium Term Financial Plan for 2016/17 to 2018/19, outlined in section 10
  - key principles and approach underlying the development of the annual budget for 2016/17 and MTFP, outlined in section 11
  - longer term financial strategy considerations of the Council, described in section 12
  - the 2016/17 to 2018/19 capital strategy, outlined in section 13
  - the consultation and budget timetable, outlined in section 15.
- 4.2 The current Medium Term Financial Plan - MTFP - was approved by Council in March 2015. This set a balanced budget for 2015/16. The financial years 2016/17 and 2017/18 were not balanced.
- 4.3 The current MTFP identified £69m of permanent savings over three years. For 2015/16, £20.0m of savings were identified and are currently being tracked for delivery. Achievement of these savings is monitored and managed by Finance Officers and reported to Cabinet on a regular basis.
- 4.4 Further savings requirements of £30.6m in 2016/17 and £18.7m in 2017/18 were also identified.

## **5. National Context and Current Financial Climate**

- 5.1 Reduction in public sector spending remains the clear priority of the Government. This strategy has a significant impact on the Council's funding position which is considered in more detail in section 7.
- 5.2 The Chancellor has announced that his Autumn Statement and Spending Review will be presented on 25 November 2015. The provisional settlement for 2016/17 will follow, but we don't expect this until late December, allowing very little time to fully plan.
- 5.3 Assumptions reflecting the equivalent cash terms reduction in core Council funding per annum have therefore been included in the Council's current draft Medium Term Financial Plan. These assumptions will continue to be reviewed and revised during the budget process.

## **6. Local Context and Emerging Pressures**

- 6.1 The Council's MTFS is shaped by the particular financial circumstances facing Derby which, in turn, result mainly from the national context and the associated unprecedented reductions in its resource base, but also from the need to respond to ever increasing service demands from the community at the local level.
- 6.2 The Council has experienced a period of sustained increase in demand for some of the key services it provides to the most vulnerable members of the community, particularly within adult social care and children's services. There is no sign of this demand declining in the foreseeable future.
- 6.3 The promotion of economic growth, job creation and business growth has always been of central importance to the Council, but the changes to local government funding make the link between local development and the MTFP more explicit and highlight the fundamental significance of the Council's role in this area. We need to continue to work closely with businesses to create an environment which supports and stimulates growth within the city, and the new business rates retention scheme means that this activity will have a direct impact on the funding available to deliver our priorities in the future.
- 6.4 The Council is due to implement Job Evaluation across its whole workforce. The Council has undertaken a comprehensive review of its pay and grading arrangements in order to meet equal pay legislation, including a review of terms and conditions and the evaluation of job roles. The net impact on the Councils revenue budget includes an increase to the annual pay bill from 2016, along with the future costs of incremental progression.
- 6.5 The Council is also subject to emerging financial pressures arising from changes in legislation and new areas of responsibility, such as Better Care, the Care Act, the Children's and Families Act 2014 and the future Education and Adoption Bill. In some cases government allocates additional funding to the Council to support any new burdens, but this is not always the case. Financial pressures arising from these issues will therefore also be considered during the MTFP process.

- 6.6 Derby continues to be underfunded in a number of areas. These include the imbalance of funding compared to the need to spend and the disproportionate way in which the formula for funding local authorities is applied. In 2010 Derby was ranked 67 in relation to the national Index of Multiple Deprivation. In 2015 Derby was ranked number 44, showing that Derby is relatively more deprived than it was in 2010.
- 6.7 The Fair Deal for Derby campaign launched in 2012 highlighted a number of areas where Derby's funding was significantly less than the need to spend, and in particular less than other similar councils. This includes funding diverted to other authorities through the formula, loss of concessionary fares funding, and threshold impact on a low Council Tax base.

## **7. Forecast Funding and Volatility**

- 7.1 Following changes to how local government is funded, the Council's core funding now comes from Council Tax, Revenue Support Grant, Top-up grant, a share of Business Rates income, and funding received via the NHS for Better Care.
- 7.2 Since 1 April 2013, the Council retains 49% of Business Rates collected, and receives both a Top-Up grant and a Revenue Support Grant from Government. The Council's Top-Up Grant has been fixed for 7 years, and is increased annually by RPI, but Revenue Support Grant continues to be subject to significant reductions.
- 7.3 Core funding for 2015/16 was announced by Government in December 2014, allowing Local Authorities to plan for this timeframe. However, funding for 2016/17 and beyond remains uncertain.
- 7.4 In addition, what is still uncertain is the levels of Business Rates that will be collected over the coming financial year, and historically there has been significant volatility in Business Rates collected. This will require monitoring during the financial year.
- 7.5 On an annual basis the Secretary of State sets a threshold for Council Tax increases, over which a public referendum is required. For 2015/16 this threshold was set at 2% and the Spending Review confirmed the intention to maintain the threshold at this level. The current draft MTFP therefore assumes the continuation of the threshold at 2% for the MTFP period, although this may be subject to change.
- 7.6 The outline position assumes a continuing reduction in the level of equivalent specific grants. However, the levels forecast have only been provisionally confirmed and the Council has previously experienced significant reductions in a number of these grants. The risk of further reductions is therefore outlined in section 8.
- 7.7 The New Homes Bonus - NHB - scheme provides local authorities with an unringfenced grant, equal to the national average for the council tax band on new properties, or on long-term empty properties brought back into use. The MTFP includes a forecast of funding from NHB based on predictions of changes in property numbers; however these may be subject to change.
- 7.8 The Council continues to respond to the national changes required in relation to the deployment of the Dedicated Schools Grant, a ring-fenced grant that funds schools and other centrally managed educational provisions including expenditure in relation

to special educational needs. There are significant pressures facing the Council and its schools, particularly in relation to managing increases demand within a funding envelope of no growth and the implementation of pay and reward. Schools delegated funding remains protected to some extent for 2016/17 through a mechanism called the Minimum Funding Guarantee; where per pupil funding is guaranteed at 98.5% of previous year levels.

- 7.9 There are a number of new burdens facing the Council, some of which are funded and others which are not. We will continue to lobby government for funding in areas where we have either not received funding, or the funding level is lower than our need to spend.
- 7.10 Taken together, the issues outlined above contribute to an environment of considerable financial uncertainty over the medium term, meaning that significant risk underlies some of the key assumptions in this strategy. The forecast funding position of the Council over the next three years will continue to be monitored and revised as the MTFP is developed to ensure that the service levels adopted for future years are affordable.

## **8. Financial Risks**

- 8.1 There are a number of service and corporate issues and new developments which could generate revenue budget pressures for the current MTFP period. These will be considered further during the course of the budget process, together with any further service pressures that may emerge. On confirmation of any emerging pressures, consideration will need to be given as to whether the pressure is added to the overall budget position thereby increasing the budget gap or whether the pressure must be contained within indicative Directorate revenue budget cash limits.

### **8.2 Funding Position Risks**

- **Retained Business Rates** – there is a risk that local economic volatility in Derby may result in lower levels of business rates being collected than current estimates. The Council has a number of on-going economic development projects to support the local economy. To manage the risk of appeals by businesses, the Council holds a provision of £7.2m.
- **Revenue Support Grant** – there is a risk that the Revenue Support Grant may be lower for Derby than estimated. Commitments to protect NHS funding might also impact upon local government core funding, as will the wider economic performance. We will continue to model scenarios which reflect a range of reductions, although the latest forecast is based on a prudent approach.
- **Specific Grants** – there is a risk of these grants being removed from the system, or rolled into the revenue support grant. Changes to specific grants have historically had a detrimental effect on Derby's funding levels. There is no contingency fund for any such reductions.
- **Academies** – funding will continue to be transferred from Council budgets to new Academy schools to reflect the transfer of statutory functions. The relevant reductions in funding are calculated by the Department for Education under the Education Services Grant arrangements. There is also a risk of the potential loss of income generated by selling Council services to schools, as historic trends



indicate that Academies have a lower take up of these services and there is a risk that as the scale reduces, the costs of providing service becomes uneconomic.

### 8.3 Prior Year Risks

- **2015-16 Monitoring** - the balanced budget for 2015/16 requires £20.0m of permanent budget savings to be delivered. Early warning, detailing potential risks of delivery and/or other emerging pressures in the year are being closely managed. It is already beginning to emerge that savings in some areas are becoming more difficult to achieve. High risk savings which may impact on future financial years will be considered as part of the 2016/17 – 2018/19 MTFP.
- **Council Tax Localisation Support Scheme** – the Council forecast anticipated Council Tax Collection Rates following the introduction of its Council Tax Localisation Support Scheme. Actual collection rates achieved are around 60% compared with the 50% forecast. This situation will be closely monitored during the financial year, with changes to the policy currently out for consultation.

### 8.4 Cost Change Risks

- **General Inflation** – Inflation levels of the last 12 months have fluctuated significantly, falling into negative figures more recently. The current MTFP 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 exposure, and how any such risks could be addressed within existing budgets.
- **Energy and Fuel Price Increases** – this area of inflation is particularly volatile and will require close analysis.
- **Pension costs** – the cost of pensions is reviewed annually. Any changes in legislative requirements or repayment terms to address the pension deficit could affect the MTFP, with an actuarial review due in Autumn 2016.
- **Implementation of Job Evaluation** – the Council is focused on implementing job evaluation in 2016. Any agreed changes will have an impact on the Council's budgetary position which will need to be considered further as part of the MTFP development.
- **National Insurance** – The State Pension is changing for people who reach State Pension age on or after 6 April 2016. The Council currently pays a lower NI contribution rate because the pension scheme is 'contracted-out'. The new State Pension will replace the existing basic and additional state pension and end contracting-out and therefore the National Insurance rebate will end. This will be a cost to the Council and is factored within the forecast pressures.

### 8.5 Capital Programme risks relative to the revenue budget

- **Capital Programme** - the Capital Strategy for 2016/17 to 2018/19 has a direct impact on the Treasury Management revenue budget. This is in terms of the cost of borrowing required to support capital investment and the opportunity cost of reduced cash balances rather than the use of capital receipts and reserves. Decisions on the future capital programme will need to take into account the overall priorities and affordability in revenue as well as capital terms.
- **Treasury Management budget** - the budget includes assumptions on the level



and timing of borrowing and level of cash balances available for investment, dependant on the final approved capital programme and actual spend profiles. In addition, forward estimates of borrowing and investment rates have been included and are subject to fluctuation due to the financial markets. Any changes to the level, timing or funding source for the capital programme, and any corporate capital programme allocations not financed from external grants or contributions will have a revenue budget implication.

## 8.6 Other Risks

- **Dedicated Schools Grant - DSG** - The continuation of the movement to a national single funding formula for schools means that there will inevitably be a shift in resources between schools and the local flexibility in determining allocations are eroded. The Minimum Funding Guarantee for schools will continue for 2016/17 at a level of -1.5%. This means that schools funding is protected on a per pupil basis for schools which means that the costs of protection, as funding resources change, is a financial pressure.
- **National Living Wage** - The Chancellor recently announced a new 'National Living Wage'. The Council already pays a local minimum earnings level which is above the living wage set by the Living Wage Foundation. The new National Living Wage is forecast to overtake the Councils indexed MEL in the next few years. This is therefore unlikely to have a direct impact on internal wage levels. In addition, there is a significant risk that as the national living wage outstrips the current minimum wage it could significantly impact on the cost of commissioned external providers, such as in adult social care, who have to increase their wages and pass the cost to customers,.
- **One off costs** – there are likely to be one-off costs to support pay costs, such as the funding of VR and CR costs and pay protection over the MTFP period. The level of these will be determined as saving options are developed and Job Evaluation is completed.

## 9. Reserves and Contingency Budgets

- 9.1 Contingency budgets are included in the revised budget position for specific material budget risks. These include, for example -
- Pay and Reward
  - Pension costs
  - Staff exit costs.
- 9.2 As there is uncertainty over the future economic position, reserves and contingencies are needed to manage our exposure to risks. The balances will be included in line with the requirements calculated in the Report on the Robustness of Estimates and Adequacy of Reserves to be presented to Cabinet with the budget report. A detailed review of reserves and contingencies will be carried out as part of the MTFP process to ensure these are maintained at an adequate level.
- 9.3 The Council holds a general reserve of £7.143m in line with the recommended target range for the General Fund Balance of between £7.063m and £10.585m. This target range is reviewed on an annual basis as part of the Report on the Robustness of Estimates and Adequacy of Reserves and reflects the Council's strategic and

operational risks.

- 9.4 There are a number of service and earmarked revenue reserves totalling £86.8m as at 31 March 2015 held for defined purposes to support one-off spending. These reserves have already been reviewed in light of the funding position to confirm or reassess the purpose for which they are being held.
- 9.5 Part of the strategy to balance the budget in 2016/17 will be to consider when savings can be achieved across the three financial years. Delay in delivering savings could be managed through the temporary use of reserves provided that plans are in place and subject to the professional opinion of the councils Section 151 Officer.

## 10. Draft Medium Term Financial Plan 2016/17 – 2018/19

- 10.1 The current budget position, as approved as part of the 2015/16 to 2017/18 Medium Term Financial Plan, includes cross-directorate savings targets in 2016/17 of £30.6m and £18.7m in 2017/18 which need to be delivered across directorate services. The latest budget assumptions, including reflecting the level of uncertainty, additional service pressures and anticipated volatility in Council funding, plus potential use of reserves to create a 'glidepath' for managing permanent savings, has adjusted these savings targets to £24.1m in 2016/17 and £13.9m in 2017/18, with a further £10.2m savings requirement expected in 2018/19.
- 10.2 Since the budget position was publicised in July 2015, officers have been working to drive down the pressures, and attract additional resources to reduce the level of savings required to balance the budget. The latest forecast is that the savings requirement over the three years is £48m.
- 10.3 Table 1 shows the latest draft MTFP for 2015/16 to 2017/18 based on current estimates and assumptions, along with the current financial year for information.

Table 1 – Draft MTFP 2016-19	Draft MTFP 2016/17 - 2018/19		
	2016/17 £'000s	2017/18 £'000s	2018/19 £'000s
<b>FUNDING</b>			
- Business Rates & Top Up Grant	57,693	59,341	61,036
- Revenue Support Grant	32,428	21,181	15,232
- Council Tax	78,823	80,886	83,000
- Collection Fund Estimated Surplus	1,000		
- Specific Grants	41,536	44,852	44,562
<b>Total Resources Available</b>	<b>211,480</b>	<b>206,260</b>	<b>203,830</b>
<b>BUDGET</b>			
- Prior Year Base Budget	223,861	211,480	206,260
- Inflation Estimates	3,000	3,000	3,000
- Pressures	8,693	5,677	6,091
- Savings Identified	16,180	11,013	7,431
- Savings Yet to be Determined	7,894	2,884	2,722
<b>Budget (prior to movement in reserves)</b>	<b>211,480</b>	<b>206,260</b>	<b>205,198</b>
- (Use of) / Contribution to reserves			(1,368)
<b>Total Budget</b>	<b>211,480</b>	<b>206,260</b>	<b>203,830</b>

- 10.4 The figures included within the draft MTFP are based on the Council's latest forecasts, estimates and assumptions, and are included for planning purposes only. These figures are expected to change as further information becomes available throughout the MTFP process. The Council will need to develop proposals to address the total savings targets to ensure a balanced budget position is achieved.

## **11. Key Principles and MTFP Approach**

- 11.1 This section of the strategy identifies the principles on which budget decisions will be taken and the Council's approach to the MTFP process. Decisions will be taken in the context of the Council's funding position, as well as the Council Plan and the corporate priorities described below.
- 11.2 In order to address the significant budget reductions required to balance the budget, the Council is undertaking a fundamental review of both the way services are delivered and the number and type of services it provides.
- 11.3 Leadership asked officers to develop budget plans for all three years, reviewing all service areas without limiting any options. Plans have been developed during the summer and autumn culminating in a series of options which will form the budget consultation document to be launched in November 2015.
- 11.4 Key principles to underpin the budget strategy and deliver savings are proposed below -
- Intend to raise Council Tax by up to 2% (or relevant referendum threshold) in order to protect, as far as possible, services for the most vulnerable.
  - Review and determine at what level we provide statutory services, including undertaking a fundamental risk analysis as they cannot be maintained at the current levels throughout the MTFP period
  - Consider the extent to which discretionary services are still affordable
  - Further manage demand, identify need and stop services as necessary
  - Determine the broad capital strategy for the Council to support the delivery of core priorities
  - Work with our Partners to determine the appropriate customer pathways across partner organisations and establish financial savings across the public sector
  - Work with our communities to help them meet their own need and reduce demand on Council finances
- 11.5 Progress, timing and estimated implications of savings options being developed will be tracked during the budget process. Savings options will be prioritised for delivery in 2016/17, 2017/18, or 2018/19 after consideration of dependencies and actions that would be required for implementation to ensure that savings targets built into the budget are deliverable.
- 11.6 Under the Public Sector Equality Duty, the Council has a legal duty to pay due regard to the need to eliminate discrimination, advance equality of opportunity between

people who share a protected characteristic and people who do not share it, and foster good relations. The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. As a result, detailed consultation processes and equality impact assessments will be carried out and considered for relevant specific proposals prior to final implementation decisions being made. The equality impact assessments will involve members of the Councils Diversity Forums, as in previous years, as they have a broad ranging knowledge of issues affecting people with protected characteristics.

- 11.7 The Council also has a duty to do all that it reasonably can to reduce crime and disorder in the local area and improve people's quality of life. As a result, the Council will also carry out crime and disorder impact assessments on its budget proposals prior to final implementation decisions being made.
- 11.8 As in previous years, it is anticipated that there will be significant staffing implications to consider and manage. As is established practice, the Council will enter into appropriate consultation at the earliest opportunity and seek to work with Trade Union representatives to mitigate the impact on staff. In the event of redundancies, the Council will not be in a position to offer enhanced voluntary redundancy terms.

## **12. Longer Term Considerations**

- 12.1 Looking beyond the period of this Medium Term Financial Strategy, the Council will continue to face significant spending pressures. These include a number of demographic issues and legislative changes, such as -
- a. changing the overall level of service to meet the needs of a growing population
  - b. continued growth in the need for adult social care, to meet:
    - growing numbers of older people;
    - growing requirements of younger adults with complex needs.
- 12.2 These spending pressures will need to be assessed in the context of a continuing squeeze on public spending from central government. Government has already announced its intention to continue the current trajectory of Local Government austerity until at least 2018/19. However, this may continue beyond that period.
- 12.3 Recent LGA analysis has highlighted that, in the longer term to 2020, the Council is likely to have an average funding envelope equivalent to only 76% of its need to spend.

## **13. Capital Strategy**

- 13.1 The current capital programme for 2015/16 to 2017/18, as approved by Cabinet, is approximately £260m. A significant amount of the programme is ring-fenced or committed to schemes in progress, with other elements of the programme being more flexible.
- 13.2 The current programme assumes the continuation of un-ring-fenced funding, in relation to transport, social care and children's services, although at a reducing level

in line with government austerity measures. Confirmed funding allocations for 2016/17 are not anticipated to be announced until January 2015, and indicative future year figures may not all be available. Financial modelling will need to take this uncertainty into account.

13.3 Leadership have reviewed the current capital programme in order to remove the need to borrow on a number of schemes. Some of these schemes will be removed from the programme and others will only continue if other external funding or reallocation on funding within the programme can be arranged. The current strategy assumes no further borrowing which will have a net impact on the revenue budget.

13.4 Due to the current economic climate and challenges in the property market, capital receipts cannot be relied upon to fund the capital programme. Potential capital receipts have therefore been excluded from future year budgets, in accordance with the previous Capital Strategy. Any receipts received in the future will be used for the following -

- All property disposals from 2014/15 onwards shall be reserved for the property rationalisation programme in order for the programme to reinvest in refurbishments and future acquisitions.

The following exceptions will apply -

- Protection of School Playing Fields – will require Secretary of State Approval
- Protection of School Land – will require Secretary of State Approval
- Receipts from discretionary disposals of housing land will be earmarked for investment in affordable housing and regeneration, to comply with DCLG conditions. 50% will be earmarked for housing; the other 50% will be earmarked for regeneration purposes within the corporate programme.
- Right to buy receipts will be allocated directly to the housing service in line with the revised pooling requirements.
- Receipts and any returns from assets funded by the Regeneration Fund will be returned to the Regeneration Fund for investment in future Regeneration projects.

13.5 The Cabinet has already identified that District Centre improvements and a City Centre Strategy are a priority. The impact of affordability across the whole MTFP will be considered when developing the detailed plans to deliver these priorities.

#### **14. Comments from the Chief Finance Officer (Section 151 Officer)**

14.1 The Councils Section 151 Officer is responsible for ensuring that the Council manages and sets a sustainable financial plan for the medium term, measured against the risks facing the organisation.

14.2 The Councils external auditors (Grant Thornton) finalised their value for money (VFM) opinion for 2014/15 on 30 September 2015. This opinion includes the last budget setting process. Grant Thornton provide a qualified 'except for' opinion. This means that for all other matters vfm is acceptable, except for the area of financial resilience. Their report stated -

'On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we anticipate providing a qualified

'except for' VfM conclusion for the following reason. There are weaknesses in the Authority's medium-to long-term financial planning, specifically the absence of a sustainable medium-term financial plan for the three year period from 1 April 2015 and a lack of robust plans to deliver the savings required to balance the budget over this period. This matter is evidence of weaknesses in arrangements of financial planning.'

- 14.3 Management agreed and it was endorsed by the Audit & Accounts Committee that a full three year budget should be established, with robust and transparent plans to address any budget gaps, where possible.
- 14.3 Government announced an emergency budget on 8 July 2015. As part of the announcements they asked interested parties to submit consultation responses for the 'Spending Review' by 4 September 2015. The Councils submitted a representation. In addition the Council met with the Minister for local government on 7 September 2015, to highlight the financial position facing the Council. This has been followed up with the LGA and an on-going dialogue continues with DCLG.
- 14.4 Even after taking account of the draft plans being considered, there is still a forecast gap over the three years, including a significant gap for 2016/17. Proposals will need to be reviewed further before they are released for consultation in order to bring forward any savings opportunities to support a balanced 2016/17 budget. Measures to bridge the gap over the three years will also need to be articulated.

## **15. Consultation and budget planning timetable**

- 15.1 The Council launched the 'Big Conversation' in December 2013. This started a long term engagement with the public partners and businesses. To support the initiative the Council re-launched the 'Your Council, Your Money, Your Views' Budget Simulator in September 2015. This asks participants to reduce the Council's budget by £50m through a combination of reducing budgets for service areas and raising fees and charges and Council Tax, to achieve a balanced budget over three years. To make the outcomes as realistic as possible, participants must achieve 80% (£40m) of the total budget reduction required before they can submit their budget. The budget simulator is live until March 2016 and participation is still encouraged. The outcomes from a snapshot taken from the system are being used by Members to formulate the budget plans.
- 15.2 Cabinet approved a series of service need and consultation exercises to commence. A number of these have already started, with others to be agreed in November 2015. The outcome of these will inform the MTFP.
- 15.3 In order to ensure that the Council can prepare a balanced budget position in line with statutory deadlines, a series of Chief Officer and Cabinet Member meetings have taken place during the summer and autumn, and will continue. These meetings will focus on the development and scrutiny of service budgets and budget proposals to develop options to close the budget gap.
- 15.4 The budget proposals will be considered by the Scrutiny Boards before Council Cabinet recommends the budget and Council Tax to Council. The content, format and timing of budget information provided to the Scrutiny Boards in the previous budget



process was well received, so it is proposed that a similar process is followed this year.

- 15.5 The budget proposals will be communicated for consultation to the public via the website and Neighbourhood Boards, as well as to other Council committees, partners and the business community before the final recommendations to Council Cabinet.
- 15.5 An outline timetable is proposed in Table 3, including steps already completed.

**Table 3 – Outline MTFS Timetable**

Key dates	Meeting	Key Issues
<b>2015</b>		
April to October		<ul style="list-style-type: none"> <li>• MTFP updated</li> <li>• Financing impact reviewed</li> <li>• Savings proposals considered</li> </ul>
July	Cabinet	<ul style="list-style-type: none"> <li>• Needs Assessment consultations commence</li> </ul>
November	Cabinet	<ul style="list-style-type: none"> <li>• MTFS agreed</li> </ul>
30 November		<ul style="list-style-type: none"> <li>• Public Consultation starts</li> </ul>
November – December	Scrutiny	<ul style="list-style-type: none"> <li>• Scrutiny of detailed budget proposals</li> </ul>
November – January	Various public and statutory partners	<ul style="list-style-type: none"> <li>• Detailed budget consultation</li> </ul>
<b>2016</b>		
3 January		<ul style="list-style-type: none"> <li>• Public Consultation ends</li> </ul>
January	Cabinet	<ul style="list-style-type: none"> <li>• Cabinet approval of budget package &amp; Council Tax</li> </ul>
February	Council	<ul style="list-style-type: none"> <li>• Full Council approval of budget</li> </ul>
March	Council	<ul style="list-style-type: none"> <li>• Council Tax setting</li> </ul>

#### **OTHER OPTIONS CONSIDERED**

- 15.1 There is a statutory requirement to set a balanced budget for 2015/16. A range of options to achieve this will be considered during the budget planning process.

**This report has been approved by the following officers:**

<b>Legal officer</b> <b>Financial officer</b> <b>Human Resources officer</b> <b>Estates/Property officer</b> <b>Service Director(s)</b> <b>Other(s)</b>	Toni Nash  Nick O'Reilly, Gordon Stirling Perveez Sadiq, Andy Smith
<b>For more information contact:</b>  <b>Background papers:</b>  <b>List of appendices:</b>	Tel: 01332 643377 E-mail: <a href="mailto:martyn.marples@derby.gov.uk">martyn.marples@derby.gov.uk</a>  Council Cabinet – Service Needs and Consultations – July 2015 Audit & Accounts Committee - Annual Audit Opinion – September 2015  Appendix 1 – Implications

<b>IMPLICATIONS</b>
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## Financial and Value for Money

- 1.1 As detailed in the report.

## Legal

- 2.1 The Council is required to set balanced revenue and capital budgets for 2016/17 by March 2015. Under the Prudential Code established by the Local Government Act 2003, it is also required to demonstrate the affordability of its revenue budget for the two subsequent financial years, after taking into account its plans for capital expenditure.
- 2.2 The Audit Commission Code of Audit Practice, as underwritten by the Audit Commission Act 1998, states that “it is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them”. This is assessed in the auditors Value for Money - VFM - conclusion, based on the following two criteria specified by the Commission -
- The organisation has proper arrangements in place for securing financial resilience.
  - The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.
- 2.3 The Audit Commission’s VFM Conclusion Guidance provides the following statement on Financial Resilience, and specifically Financial Planning -
- ‘An annual budget is not enough to secure financial resilience. Organisations should set the budget in the context of a longer-term financial strategy and a medium-term financial plan - MTFP - covering for example, a three-to five-year horizon. The MTFP needs to be realistic. Assumptions around inflation, income levels, demographics and future demand for services need to be modelled and based on reasonable predictions.’
- 2.4 The Council has a legal responsibility to meet the requirements of the Public Sector Equality Duty when making financial decisions

## Personnel

- 3.1 As detailed in the report.

## **Equalities Impact**

- 4.1 Equality Impact Assessments will be completed throughout the budget process and beyond, until full consultation on individual proposals are concluded, as necessary.

## **IT**

- 5.1 No new implications assumed at this stage.

## **Health and Safety**

- 6.1 No new implications assumed at this stage.

## **Environmental Sustainability**

- 7.1 No new implications assumed at this stage.

## **Asset Management**

- 8.1 As detailed in the report.

## **Risk Management**

- 9.1 As detailed in the report.

## **Corporate objectives and priorities for change**

- 10.1 As detailed in the report.