

## **Medium Term Financial Strategy and Council Plan 2019/20 - 2022/23**

### **SUMMARY**

- 1.1 This report outlines the proposed Medium Term Financial Strategy for the Council's revenue and capital budget over the period 2019/20 to 2022/23. It also sets out a high level approach to our Council Plan development over the coming weeks and months.
- 1.2 The Medium Term Financial Strategy sets out the Council's approach to the prudent management of our finances against a reducing reliance on central government funding and more of a reliance of local funding sources from council tax and business rates income. This trend will continue until the proposed 'Fairer Funding' system for local government, scheduled for 2020/21 is introduced.
- 1.3 Resource projections for the next four years are included, the financial challenges that the Council faces and the approach planned to meet the Council's priorities over this period. The report also comments on the risks facing the Council in the next four years and outlines any mitigation of these risks.
- 1.4 In ongoing austere times for local government, delivery of a balanced budget year on year is becoming more and more challenging. The estimated funding gap over the next four years is £22.843m and the incidence of the gap in 2019/20 has increased from £420,000 included in the Budget Report agreed by Full Council on 24 January 2018 to £12.199m now. The main reasons for this significant shift is due to:
- Adult Social Care Pressures £4.904m
  - Children's Social Care Pressures £4.000m
  - Previously agreed savings from staffing efficiency savings £2.430m
  - 1% Under allowed for pay award in 2018/19 £1.000m
- 1.5 The report also outlines the significant ongoing pressures facing Local Government for Social Care and the emerging financial pressures in this service area that are not sustainable without a permanent recognition by Government that more funding needs to be aligned to offset the increasing pressures being faced by all social care local authorities across the country. The Government is committed to releasing their Social Care Green Paper setting out their plans for a sustainable social care system in

Autumn 2018.

- 1.6 There are also new requirements for the Capital Strategy in the CIPFA Prudential Code. The capital strategy provides the long term context in which capital investment decisions are made and the governance for those decisions. The Capital Strategy has therefore been updated within this Medium Term Financial Strategy.

## **RECOMMENDATIONS**

- 2.1 To endorse the Council's Medium Term Financial Strategy for 2019/20 to 2022/23 and recommend that Full Council approve this Strategy on 27 September 2018.
- 2.2 To note the emerging strategic priorities and risks identified in section 9 and the intention to develop the Council Plan for 2019/20 to 2022/23 in line with the Medium Term Financial Strategy and Budget.
- 2.3 To note the current estimated financial position and a revenue funding gap of £12.199m in 2019/20 and £22.843m across the four year period to 2022/23 where savings plans are being worked up, as set out in the Model at Appendix 3 and the assumptions included within these forecasts, as set out in section 11.
- 2.4 To note the budget risks associated with the Medium Term Financial Strategy, as set out in section 12 of the Capital Strategy and section 14 of the overall report.
- 2.5 To approve the outline timetable for development of the Budget and Council Plan for 2019/20 – 2022/23 including consultation periods set out in section 15.
- 2.6 To approve the update to the Capital Strategy 2019/20 – 2022/23 in accordance with the requirements made under the CIPFA Prudential Code as set out in section 13.
- 2.7 To approve the creation of a Capital Feasibility Reserve of £1.0m for the reasons as set out in paragraph 12.16.
- 2.8 To approve that a Capital Contingency Budget be set up funded from the Budget Risk Reserve to the value of £1.0m as set out in paragraph 12.19.
- 2.9 To approve, subject to constitutionally delegated limits, use of the Capital Contingency Budget to the Section 151 Officer in consultation with the Cabinet Member for Finance and Procurement, as set out in paragraph 12.19.
- 2.10 To approve that financing of the capital programme be delegated to the Section 151 officer in consultation with the Cabinet Member for Finance and Procurement, to provide sufficient flexibility to allow for the most effective use of Council resources, as set out in paragraph 12.22.
- 2.11 To approve that no financing sources, unless stipulated in regulations are ring fenced, as set out in paragraph 12.23.

## **REASONS FOR RECOMMENDATIONS**

- 3.1 To gain Cabinet approval for the approach to formulating the budget plan for 2019/20

to 2022/23.

- 3.2 To ensure consistent and planned resource allocation in accordance with the strategic priorities identified in the Council Plan.
- 3.3 The Council is required to set balanced revenue and capital budgets for 2019/20 by March 2019. 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.
- 3.4 To gain Cabinet approval for the budget timetable, to ensure that the Council can prepare a balanced budget in accordance with statutory deadlines.
- 3.5 To comply with statutory obligations in respect of consultation.

## **SUPPORTING INFORMATION**

### **4. Introduction**

4.1 Key areas of the report are outlined below:

- Medium Term Financial Strategy in context outlined in section 5
- the Council's current Medium Term Financial Plan for 2018/19 to 2020/21, outlined in section 6
- the national context for local government outlined in section 7
- the local context for Derby outlined in section 8
- the Council Plan and Strategy for 2019/20 – 2022/23, outlined in section 10
- the draft Medium Term Financial Plan for 2019/20 to 2022/23, outlined in section 11
- the capital strategy, outlined in section 12
- the treasury management strategy, outlined in section 13
- further risks and mitigation, outlined in section 14
- the consultation and budget timetable, outlined in section 15.

### **5. Medium Term Financial Strategy in Context**

5.1 The Medium Term Financial Strategy (MTFS) is a strategy for the revenue and capital budget over the next four year period, 2019/2020 to 2022/2023. It sets out the Council's strategic approach to the management of its finances and the current position shows a revenue funding gap of £12.199m in 2019/20 and £22.843m across the four year period to 2022/23 where savings plans are being worked up. The strategy also outlines the resource projections for the forthcoming years, the financial challenges that the Council faces, including cost and service demand increases and any potential growth and the approach planned to meet the priorities identified by the Council. It also outlines significant risks facing the Council and considers actions to mitigate these

risks.

- 5.2 The Strategy also assesses the revenue, capital and treasury management impact on the Council for the medium term setting out an approach to the management of its finances. It summarises the resource projections and financial challenges including increasing service demands, inflationary pressures and funding risks.

- 5.3 Each year there is a short-term requirement to prepare an annual budget and set the Council's Council Tax for our charge payers. The achievement of the Council's longer term objectives, however, requires service and financial planning to be undertaken over a longer period, considering longer term objectives, resource issues and demographic trends that will affect our budgets. 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 and provides context to the budget setting process.
- 5.4 The aim is for the Council's MTFS to be aligned to our updated Council Plan over this same period so that budgetary decisions are based on the Council's priorities for the city.

## **6. Update on the Current Medium Term Financial Plan – 2018/19 to 2020/21**

- 6.1 The current Medium Term Financial Plan (MTFP), agreed by Full Council on 24 January 2018, identified the need for £15.883m of permanent savings over the three year period 2018/19 to 2020/21.
- 6.2 For 2018/19, £12.759m of savings were identified and are currently being tracked for delivery. The saving of £1.863m aligned to staffing efficiencies through the non-recruitment to vacant posts and potential opportunities for voluntary redundancy as service needs change is proving to be very challenging and is currently forecasting an undeliverable amount of £1.480m although there is confidence that this shortfall can be mitigated from one off savings in 2018/19. It is therefore prudent to look for alternative permanent savings to meet this £1.480m shortfall in 2019/20. Delivery of 2018/19 savings will continue to be monitored and managed by officers and reported to Cabinet on a quarterly basis within the forecast of out-turn reports.
- 6.3 For 2019/20 and 2020/21 further savings of £2.664m and £460,000 respectively were also agreed by Council on 24 January 2018 which will be reviewed as part of this MTFP process. In 2019/20 there is a further staffing saving of £1.5m aligned to staffing efficiencies from the proposed same source as set out in paragraph 6.2. For the same reasons, we are currently forecasting an unachievable amount of £950,000 against this saving, and this has also been built into the revised MTFP model for 2019/20 as outlined in section 11.
- 6.4 The MTFP Model is a dynamic position and will change as we move forward through the budget planning process. The Model will therefore be regularly updated and reported to Cabinet over the MTFP period.

## **7. National Local Government Finance Context**

- 7.1 The Chancellor confirmed in his Spring Budget in March 2018 that he will set an overall path for public spending for 2020 and beyond with a detailed Spending Review in 2019. This will align to our MTFP planning where 2019/20 is the final year of our four years Revenue Support Grant Settlement.
- 7.2 Our Financial Model is assuming a 25% year on year reduction in Revenue Support Grant (RSG), with RSG reducing to £5.3m by 2022/23, should it still exist by then as the Government is proposing a 'Fairer Funding' system for local government,

scheduled for introduction in 2020/21. The new system is likely to include a redistribution of funding between councils and an increased dependence on business rate income raised locally. So, at this stage, there is greater uncertainty beyond 2019/2020 and this risk will be managed throughout the MTFS timeframe, and reported regularly to Cabinet.

- 7.3 The Government has recently announced a commitment to increase NHS funding by £20bn by 2023 as part of the long term plan for the NHS. A further Government announcement has been made that the Social Care Green Paper will also be published until the Autumn 2018. We will continue to lobby the Government for more funding in the coming months to get our message heard.
- 7.4 A permanent solution for Adult Social Care Funding has been part of national debates recently and has been a feature of significant investment in recent Government Annual Budgets. This includes:
- option to increase Council Tax by 6% over two years which Derby agreed to do
  - one off specific grants to local government
  - the introduction of the 'Improved' Better Care Fund following the already established Better Care Fund of June 2013.
- 7.5 The future of this additional investment is still in question beyond 2019/20 and the Local Government Association (LGA) and Association for Directors of Children's Services have clearly advised Government that local authorities are now facing a level of demand and complexity for which current resourcing is insufficient. The LGA found that three quarters of local authorities in England exceeded their children's services budgets in 2015/16 and have estimated that the funding gap in children's services is expected to be £2bn by 2020.
- 7.6 The Government continues to focus on Brexit from March 2019 which is currently creating wider uncertainty for the UK economy. We will continue to review any implications for local government in the coming months.

## **8. Derby City Council Local Government Finance Context**

- 8.1 The Council's Medium Term Financial Strategy is shaped by the national context but also by the need to respond to increasing service demands from our communities at the local level coupled with aspirational improvements and maintenance through capital investment.
- 8.2 The Council continues to experience a period of sustained increase in demand for some of the key services we provide to the most vulnerable members of the community, particularly within adult social care where we are estimating a base budget pressure of £4.904m in 2019/20 and an estimated budget pressure of £4m in children's services. We are working hard at preventative measures to reduce these estimated costs but there is no sign of this demand declining in the short term.
- 8.3 The adult social work service in Derby is also under considerable strain from demographic, legislative and health and care system pressures. Managing demand strategies are in place, but are only allowing us to deal with lower end need and risk. Urgent and complex cases require an appropriate and proportional response and this

invariably involves on-going provision for frail elderly people and younger adults with long term conditions.

- 8.4 The current pressures relate to service activity arising from the Care Act, the responsibilities placed upon the Council following the Cheshire West Council Deprivation of Liberty judgement, hospital discharge activity, and cost pressure from the care market and standards.
- 8.5 The Care Act has broadened the access to safeguarding categories which has led to a significant increase in safeguarding activity. Pre and post Care Act safeguarding figures confirm that there has been a 53% increase in activity. During 2016/17 there were 2432 referrals, whereas referrals in 2017/2018 were 2712 - an increase of 11%.
- 8.6 The Cheshire West Council Judgement has exponentially increased the volume of Deprivation of Liberty Safeguards (DoLS) requests. For those people entering residential and hospital care where a lack of mental capacity is suspected, the care organisation must submit a request for a DoLS assessment to the local authority. This then entails a mental capacity assessment and a best interest assessment for the person concerned. Pre Cheshire West (2013) the authority received 55 DoLS applications per annum, in 2016/17 we received 1234 applications and in 2017/18 we received 1079, a 12 per cent decrease on the previous year. Early signs in 2018/19 suggest these numbers look to be now stabilising.
- 8.7 Due to the well- publicised pressure in hospitals and on primary care there has been a significant additional response requirement from adult social care to discharge and arrange packages of care quickly to keep the local health and care system flowing.
- 8.8 The demand for children's social care services is rising. The numbers of children coming into care has risen by 7% over the past year. We are performing well in our care services but the costs are increasing significantly and difficult to contain.
- 8.9 The Council has also experienced a sustained increase in demand for spend on the Council's assets, including infrastructure and property. Costs in this area are also projected to increase in the foreseeable future.
- 8.10 Emerging pressures will also need to be taken into account during the MTFP budget setting process. For example, the increased costs of the A52 project, which will be subject to a separate cabinet report in September 2018 and any costs that may be incurred to cover the necessary Air Pollution work we, need to do in order to comply with statutory standards, in advance of Government funding.
- 8.11 We also need to take into account how Derby has a relatively limited ability to raise resources through local taxation when compared to other authorities. This stems from the fact council tax income is limited by the high proportion of low value dwellings where over 51 per cent of the whole of our domestic properties fall into band A which is the lowest band.
- 8.12 The Council is also subject to emerging financial pressures arising from changes in legislation and new areas of responsibility, including 'Better Care', the Care Act, and

the Children and Social Work Act 2017. In some cases government allocates additional funding to the Council to support any 'new burdens', but this is not always the case or sufficient to meet statutory requirements. Financial pressures arising from these issues will therefore also be considered during the Medium Term Financial planning process.

## **9 Conservative Administration Manifesto Commitments**

- 9.1 Our Medium Term Financial Strategy will also need to reflect any increased costs associated with the new Conservative Administration's manifesto commitments. These will be worked up in the coming weeks and will be built into our medium term financial planning process alongside any other emerging pressures for due consideration.

## **10. The Council Plan and Strategy 2019/20 – 2022/23**

- 10.1 Derby's partnership vision is to be a safe, strong and ambitious city by 2030, with 'closing the gap' as a specific goal (articulated in the Derby Plan and Cabinet Report March 2018). The vision is supported by five outcome boards where partners have agreed strategies and monitor delivery against key outcomes. The outcome boards are:
- Derby Renaissance Board
  - Health and Wellbeing Board
  - Children Families and Learners Board
  - Safer Communities Board
  - Leisure and Culture Board.
- 10.2 The Council Plan sets our strategic priorities which support the city vision and the outcomes we want to achieve. The Council is currently reviewing its Council Plan for 2019/20 to align with the Medium Term Financial Strategy. Significant emerging priorities at this stage include:
- Children and young people
  - Vulnerable adults
  - Clean, safe and attractive spaces
  - Neighbourhoods
  - Economy and growth
  - Leisure and culture
  - Transport
  - Efficiency
  - Innovation
  - Council's workforce.
- 10.3 Further work is being undertaken to create a draft Council Plan and supporting delivery plan which shows what actions we will take (including timescale, funding and impact). This will be shared with stakeholders as part of the Autumn consultation process, alongside the Council's budget proposals. The timetable for development and consultation is outlined in section 15.



- 10.4 Our financial plans will be based on the Council Plan priorities and actions to ensure that we focus our reducing, finite resources in the right areas. We will regularly monitor the outcomes from our Council Plan to demonstrate the difference we have made and provide local tax payers with evidence of value for money.
- 10.5 Consideration will also be given to the Council's strategic risk register in the prioritisation of resources, to ensure effective mitigation of existing and future financial pressures, both revenue and capital. We have strengthened arrangements for managing risks at all levels to ensure effective oversight and identification / prevention of financial implications at the earliest stage. The delivery of financial plans currently features as a risk in the strategic risk register, although this strategy report is part of ongoing mitigation against that. Current risks (as reported to Audit and Accounts Committee on 19 June 2018) include:
- Staffing – capacity, knowledge and skills
  - Senior Management restructure and interim arrangements
  - Cyber Security
  - Delivering financial plans
  - Statutory Compliance and Property Health & Safety
  - Project Management
  - Procurement and contract management
  - Data and records management.
- 10.6 To deliver a balanced, sustainable Medium Term Financial Strategy for 2019/20 - 2022/23, realistic and robust savings will be required to be identified and delivered. The savings agreed in the 2018/19 budget must be achieved or mitigated through alternative savings, as compromises to this increase the funding gap, require further savings and impact on the Council's priorities and ability to demonstrate a balanced position.
- 10.7 Significant emerging and current planned pressures both capital and revenue will be scrutinised to ensure they are robust, in line with the objectives of the Council and are necessary as being over and above the services we are currently providing. For example can pressures be consumed within the service either by doing things differently and releasing current resource for the emerging priority? Any planned pressures no longer required need to be highlighted in the Plan to ensure finances are being managed to optimum effect and diverted to the higher priority service areas where need be.
- 10.8 The Council has substantial sums of loans and investments, and therefore continually monitors the associated risks and opportunities. Savings have been delivered from the Council's Treasury Management function mainly due to the accounting review of the funding of our capital investments. This complied with accounting rules and included backdating changes to the Minimum Revenue Provision which has meant there is an overprovision in previous years allowing us to reduce 'future years' charges up to 2024/25 at which point the over provision will be fully taken and from 2025/26 Minimum Revenue Provision charges will increase, creating a pressure. The review of Treasury Management will continue to identify any further prudent savings, including debt re-profiling opportunities, arising from changes in market conditions.

- 10.9 The Council works with other authorities, public sector, NHS and private organisations on a range of activities. Opportunities to work more closely with these organisations to achieve shared outcomes, share costs and expertise and generate efficiencies will continue to be pursued.
- 10.10 The Council's Chief Officer Group is working with Directors and Heads of Service to identify themes for savings across the whole of the Council. These requirements for savings are taking a holistic strategic approach where we can, aligned to our Council Plan priorities.
- 10.11 The Council needs to continue to operate an essential spend rule whereby spend must only be considered if absolutely necessary and not just because there is sufficient budget. This will potentially help mitigate any unforeseen pressures in current and future year budget allocations.
- 10.12 The HRA has a separate process that runs alongside of the MTFP whereby a detailed 30 year business plan has been agreed covering both the revenue and capital costs. This provides the Council with the assurance that the fund is sustainable over the long term.

## **11. Draft Medium Term Financial Plan – 2019/20 - 2022/23**

- 11.1 An updated forecasted financial model over the MTFP period which shows a significant worsening financial position to the overall position agreed by Council on 24 January 2018 is included at Appendix 3.
- 11.2 The figures included within this draft MTFP are based on the Council's latest forecasts based on early estimates and assumptions, and are included for planning purposes only. These figures will change as further information becomes available throughout the process. The Council will need to develop proposals to address the total savings targets to ensure a balanced, sustainable budget position is achieved.
- 11.3 The table below shows the latest draft Medium Term Financial Plan for 2019/20 to 2022/23. Further information is included at Appendix 3.

### **MTFP Forecast 2019/20 to 2022/23**

<b>MTFP – Year on Year Movements</b>	<b>2019/20 £000's</b>	<b>2020/21 £000's</b>	<b>2021/22 £000's</b>	<b>2022/23 £000's</b>
<b>Government Funding:</b>				
Reduction in Government RSG Funding	6,374	3,131	2,348	1,761
Business Rates Tax Base Reduction/Growth	(2,171)	(2,012)	(2,316)	(2,406)
Council Tax Base/Uplift Increases	(2,693)	(2,764)	(2,544)	(2,606)
Other Grants	(1,284)	2,731	158	238
Other Income from Fees and Charges	(695)	(715)	(737)	(759)
Collection Fund Deficit/(Surplus)	(3,025)	-	-	-
<b>Total Movement in overall funding:</b>	<b>(3,494)</b>	<b>371</b>	<b>(3,091)</b>	<b>(3,772)</b>
<b>Budget Movements:</b>				

Budget Pressures	15,090	7,804	5,312	4,792	
<b>Total Budget Movements</b>	<b>15,090</b>	<b>7,804</b>	<b>7,798</b>	<b>4,792</b>	
<b>Sum Required to Balance Budget</b>	<b>11,596</b>	<b>8,175</b>	<b>2,221</b>	<b>1,020</b>	
Savings previously Identified	(1,827)	(460)	(158)	(154)	
Unachievable 2018/19 Savings	1480	-	-	-	
Unachievable 2019/20 Savings	950	-	-	-	
<b>Current Budget Gap</b>	<b>12,199</b>	<b>7,715</b>	<b>2,063</b>	<b>866</b>	<b>Total</b>
					<b>22,843</b>

- 11.4 The current position shows a current budget gap of £22.843m to 31 March 2023. The draft plan will continue to be updated to enable a balanced position for 2019/20 with options for future year budget gaps.

## 12. The Capital Strategy

- 12.1 The General Fund indicative programme for 2019/20 to 2021/22 totals £216.9m for the three years and the Housing Revenue Account programme totals £54.7m for the same period.

- 12.2 The strategy is to look to develop these indicative proposals further to include any service rationalisations, external funding secured, capital receipts available as well as proposed indicative allocations for Highways and Schools. The strategy will also align with our Treasury Management Strategy to apply cash balances rather than having the need to borrow whilst interest rates remain at such low percentages.

### 12.3 Governance

The main forum for reviewing all financial aspects of the Council's capital programme is through the Corporate Capital Programme Board. The Board reviews the capital programme on a quarterly basis reporting on both the expenditure and programme delivery and alerting of any risks encountered in the delivery of projects. The top 10 projects, with a value of 5m or more are reported on more frequently and have been categorised as such due to their value.

- 12.4 The Council has also introduced a project gateway system to assess larger projects and develop a business case to take the projects forward. The Corporate Capital Programme Board and the relevant Departmental Management Teams will be part of this process in assessing the project in accordance with the Council's Council Plan priorities and providing there is a business case and can demonstrate Value for Money and affordability. The gateway process consists of five gateways as follows:

- Gateway 1 – project initiation
- Gateway 2 – feasibility
- Gateway 3 – project development
- Gateway 4 – project delivery
- Gateway 5 – project close.

12.5 The new capital programme will be developed as follows throughout the year:

- New bids submitted
- Rolling programmes submitted
- Current indicative programme assessed for scheme status and whether any schemes are no longer viable in which case these would be taken out to recycle any internal funding if applicable
- Challenge from the Service, Chief Officer Group and Portfolio Holders
- A programme is then put together with all known funding sources
- The new programme is then circulated for consultation.

12.6 The annual capital programme will then be updated for new proposed schemes, revised profiling, slippage and changes in expenditure projections.

12.7 The first call on capital resources will be any operational schemes that are required to be in the programme for statutory or legal reasons. In addition, all schemes already contractually committed will be supported and sufficient resources will be provided to enable them to proceed. Schemes which already have approval will be supported provided they continue to have a viable business case which is delivering to Council priorities.

12.8 **Overview of the General Fund Capital programme**

The Council's capital programme is split by strategy area. The capital programme was agreed by Full Council on 24 January 2018 and an extract is shown in the table below.

**Current Approved capital programme 2018/19 – 2021/22**

Programme Area	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
<b>Expenditure</b>					
Schools	14,843	21,923	7,655	7,380	51,801
Housing General Fund	4,155	3,620	3,039	3,039	13,853
Property	5,763	5,437	4,887	4,787	20,874
Flood Defence	250	250	250	250	1,000
Highways & Transport	9,857	8,164	6,270	5,900	30,190
Vehicles Plant & Equipment	480	4,772	370	-	5,622
Regeneration	14,223	10,240	2,128	2,324	28,915
ICT	2,925	1,050	200	-	4,175
Major Projects	62,577	50,530	37,340	25,089	175,536
Total	115,072	105,986	62,139	48,769	331,966

12.9 **Overview of the Housing Revenue Fund Capital programme**

The Council's Housing Revenue Fund capital programme up to 2021/22 was agreed by Full Council on 24 January 2018; an extract can be seen in the table below.

**HRA Summary Capital Programme 2018/19 – 2021/22**

Title	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
<b>Expenditure</b>					
New Build	9,722	6,987	4,519	8,788	30,016
General Maintenance/Refurb of council dwellings	9,495	10,755	11,690	12,017	43,957
Total	19,217	17,742	16,209	20,805	73,973

- 12.10 Since approval there will have been changes to the capital programme, including profiling and funding changes which will be reported to Cabinet in August 2018 for Quarter 1 for monitoring and approval purposes as required.
- 12.11 The General Fund and Housing Revenue Account current and indicative future programmes have been outlined to demonstrate the size and value of the Council's plans and will need careful consideration and monitoring of the appropriate strategy.
- 12.12 **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.
- 12.13 **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.
- 12.14 **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.
- 12.15 **Market/Commercial Values**  
The Council's capital programme relies on commercial activity as a key supporting strategy. This involves income generation from property lettings and generation of 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.
- 12.16 **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 projects 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 Corporate Capital Programme Board on a quarterly basis to aid the board in monitoring progress and risks on an ongoing basis.

#### **Risk of Revenue Write off**

The Council commits to feasibility studies on many of its significant capital schemes at the point where the scheme has had the relevant approval to be included on the capital programme. Feasibility by its nature is to investigate the viability of a scheme and therefore could mean that the scheme could be aborted if the feasibility wasn't thought to be the best option for the Council. This would mean the expenditure for the feasibility would become a revenue charge as the scheme was no longer go ahead. It is recommended that a Capital Feasibility Fund to the value of £1.0m be set up by which relevant areas could bid for some funding to undertake feasibilities to be allocated from the budget risk reserve.

#### **12.17 Contingencies in the Capital programme – Major Projects**

In the initial stages of development, major capital projects will have significant uncertainties. For example, these may relate to the planning process, the views/interest of stakeholders who must be consulted, obtaining planning permission, ground conditions or costs of rectifying or demolishing existing buildings.

- 12.18 The Council should therefore adopt a process to identify and manage contingencies. The contingencies will be broad estimates in the initial stages due to the amount of unknown factors. As projects progress these unknown factors become clearer and so project managers can focus on managing these more effectively using contingencies as necessary.

- 12.19 It is recommended that a Capital Contingency Budget be set up funded from the Budget Risk Reserve to the value of £1.0m. This report envisages that approval for the release of these funds, subject to constitutionally delegated limits, is delegated to the Section 151 Officer in conjunction with the Cabinet Member for Finance and Procurement.
- 12.20 **Brexit**  
Volatility caused by uncertainty in the property market has stabilised since the referendum in 2016, however the impact on the capital strategy is being impacted in respect of construction costs and property values which are being closely monitored on an ongoing basis.
- 12.21 As part of the closure of the Council's annual accounts, the Interim Strategic Director of Corporate Resources will make the most cost effective and appropriate financing arrangements for the capital programme as a whole. Therefore funds will not be ring fenced unless legally required.
- 12.22 It is recommended financing of the capital programme be delegated to the Section 151 officer at the year end in consultation with the Cabinet Member for Finance and procurement to provide sufficient flexibility to allow for the most effective use of Council resources.
- 12.23 It is recommended that no financing sources unless stipulated in regulations are ring fenced.

### **13. The Treasury Management Strategy**

- 13.1 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 their underlying levels, sometimes known as internal borrowing.
- 13.2 The table below is taken from the Treasury Management Strategy 2018/19 and outlines the current position as at 31 March 2017 from analysing the balance sheet and forecasts future changes.

## Balance Sheet Summary and Forecast

	31.3.18 Estimate £m	31.3.19 Forecast £m	31.3.20 Forecast £m	31.3.21 Forecast £m
General Fund CFR	413.7	450.3	460.8	460.6
HRA CFR	230.9	230.9	230.9	230.9
<b>Total CFR</b>	<b>644.6</b>	<b>681.20</b>	<b>691.7</b>	<b>691.5</b>
Less: Other debt liabilities	-102.0	-102.0	-102.0	-102.0
<b>Borrowing CFR</b>	<b>542.6</b>	<b>579.2</b>	<b>589.7</b>	<b>589.5</b>
Less: External borrowing	-361.9	-350.4	-338.8	-337.7
<b>Internal (over) borrowing</b>	<b>180.7</b>	<b>228.8</b>	<b>250.9</b>	<b>251.8</b>
Less: Usable reserves	-193.3	-202.9	-210.1	-211.8
Less: Working capital	-42.5	-52.5	-57.5	-57.5
<b>Investments (or New borrowing)</b>	<b>55.1</b>	<b>26.6</b>	<b>16.8</b>	<b>17.5</b>

- 13.3 The Council has an increasing CFR due to the future planned unfunded capital programme, it is forecast that the ability to meet this increase through usable reserves, working capital and reducing investments would result in investment levels falling just below the estimated minimal level to meet our liquidity needs (£20m) in 2019/20 and therefore we may have a need to borrow.
- 13.4 This position has been updated for the actual outturn position 2017/18 and the future year assumptions regarding the future unfunded capital programme and changes to usable reserves; this will identify a revised forecast need to borrow position.
- 13.5 The investment and borrowing strategies being pursued are detailed in the 2018/19 Treasury Management Strategy which was agreed by Cabinet on 15 February 2018.

## 14. Risk Planning

- 14.1 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 has adopted a strategy of first considering offsetting variances within service budgets prior to a call on reserves.
- 14.2 The Interim Strategic Director of Corporate Resources 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

**Specific Grants** – Revenue Support Grant is provisionally confirmed until 2019/20, but uncertainty remains over other specific grants. 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 should be compensated for by a corresponding change in top up grant. This will not be relevant in the 2019/2020 MTFP if the current Business Rates Pilot Model is extended.

**Retained Business Rates** –Volatility may result in lower levels of business rates than currently forecast. The key risk area is appeals, as they are unpredictable to forecast and can be backdated over several years. The Council does hold a provision for backdating successful appeals and statutory regulations for timing of recognising variations in business rates allow the Council to build these into their future MTFP.

**Fair Funding Review** – The Government is reviewing each council's need to spend on services, with a view to redistributing funding between councils .The review is in line with the move for Councils to retain more business rates and become less reliant on Government grant. There will also be the need for some changes and transfer of responsibilities for services to be delivered.

**Adult Social Care – Green Paper** – The Government has recently announced that the social care green paper will be published in Autumn 2018. This commitment is likely to undertake a parallel programme of work in line with NHS reforms, focusing on issues for working age adults as financial pressures due to the increasing care needs of younger adults with disabilities or mental health problems that escalate. It is anticipated that the Green paper will present reforms to adult social care and address the funding issues post 2020. The current MTFP does not include any updates for this but will be updated as appropriate.

### **Prior Year Risks**

Budget Monitoring - the budget for 2018/19 required significant permanent budget savings of £12.759m 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 can be mitigated in some instances by reserves but the risk must also 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 historically been particularly volatile and will be closely monitored. Inflation on fuel has been relatively low; however there still remains the risk of unpredicted sudden price changes as a result of international events.

**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 new 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.

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

- 15.1 In order to ensure that the Council can prepare a balanced budget position in line with statutory deadlines, a series of meetings will take place throughout the year. These meetings will focus on the development and scrutiny of budgets and budget proposals to agree plans to close any budget gap.
- 15.2 The development of the budget will be undertaken alongside the development of the Council Plan for 2019/20 – 2022/23.
- 15.3 The budget proposals including draft Council Plan priorities will be communicated for consultation to the public including via the website as well as to other, partners and the business community before the final recommendations to Council Cabinet.
- 15.4 The budget proposals and draft Council Plan will be considered by Chief Officer Group and Cabinet Portfolio holders before Council Cabinet recommends the budget and Council Tax to Full Council in February 2019.
- 15.5 An outline timetable for developing the Council Plan and setting the budget for 2019/20 is proposed in Appendix 2, including steps already completed.

## **OTHER OPTIONS CONSIDERED**

- 16.1 There is a statutory requirement to set a balanced budget for 2019/20. 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>	Olu Idowu – Head of Legal Services Toni Nash – Head of Finance – Corporate Resources  Don McLure – Interim Strategic Director of Corporate Resources Heather Greenan – Head of Performance and Intelligence
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<b>For more information contact:</b>	Tel: 01332 641491 E-mail: <a href="mailto:Toni.Nash@derby.gov.uk">Toni.Nash@derby.gov.uk</a>
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<b>Background papers:</b>	None
<b>List of appendices:</b>	Appendix 1 – Implications Appendix 2 – Draft Budget and Council Plan Timetable Appendix 3 – Detailed MTFP

<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 2019/20 by March 2019. 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.

**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.

## Appendix 2

### DRAFT BUDGET AND COUNCIL PLAN TIMETABLE 2019/20 – 2022/23 (This is a live document and will be updated and revised as appropriate)

KEY DATES	MEETING	Commentary/Update
09 February 2018	Initial Budget Process Meeting Strategic Director and Heads of Finance	Completed – All Heads of Finance and Interim Strategic Director
20 March 2018	Update on Medium Term Financial Plan to Directors Workshop	Completed – Head of Corporate Resources
27 March 2018	Update on Medium Term Financial Plan to all Heads of Service	Completed – Interim Strategic Director of Resources
25 April 2018	Chief Officer Group – MTFP meeting – Plan Update and Directorate issues	Completed – COG and Heads of Finance
1 May 2018	Chief Officer Group – MTFP meeting – Plan Update and Directorate issues	Completed – COG and Heads of Finance
8 May 2018	Chief Officer Group – MTFP meeting – Plan Update and Directorate issues	Completed – COG and Heads of Finance
May 2018	Pressure Identification and Saving Proposal Development	Ongoing
4 June 2018	MTFP further Planning	Completed – Interim Director Of Resources, Head of Finance, Head of Performance and Delivering Differently Programme Manager
June 2018	Directors Update (to include all directors)	All Directors- HOFs and Head of Performance.
June 2018	Review of emerging priorities for consideration in Council Plan 2019/20 onwards	Completed and included in the draft MTFS Report to Cabinet on 18 July 2018
June 2018	COG approve draft Medium Term Financial Strategy 2019/20 to 2021/22	Draft report approved by COG
July 2018	Directors workshop	Completed. Ideas for savings being considered
18 July 2018	Cabinet approve Medium Term Financial Strategy 2019/20 to 2022/23	
31 July 2018	COG review of draft priorities for Council Plan	
August 2018	COG - Pressure Identification and Savings Proposals workshops and MTFP updated throughout	
August 2018	COG / Cabinet discussion on MTFP latest position and Council Plan priorities	
September 2018	The MTFP - Pressures and Savings finalised and circulated to Chief Officer Group	
September 2018	Portfolio holders approve draft budget for 2019/20 to 2022/23 for consultation.	
September 2018	Portfolio holders approve draft Council Plan 2019/20 – 2022/23	
October 2018	Public consultation starts on draft budget and draft Council Plan (10 weeks)	
November 2018	Public Scrutiny meetings	
November 2018	Public consultation ends (end of November)	

<b>KEY DATES</b>	<b>MEETING</b>	<b>Commentary/Update</b>
December 18 <sup>th</sup> 2018	Budget scrutiny: Scrutiny Review Boards	
December 2018	Results of Public Consultation exercise compiled	
December 2018	Budget scrutiny: Executive Scrutiny and Governance Board	
December 2018	COG approve draft budget for 2019/20 to 2022/23	
Early/Mid December 2018	Government announce Draft Local Authority financial settlement	
Late December	Review of Budget by portfolio holders	
January 2019	Cabinet approve draft budget and Council Plan for 2019/20 to 2022/23	
March 2019	Government announce Final Local Authority financial settlement	
March 2019	Full Council approve budget and Council Plan for 2019/20 to 2022/23	

\*All Equality impact assessments will be completed as appropriate.

## Derby City Council - Medium Term Financial Plan 2019/20 - 2022/23 - Year on Year Movement

	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's	
<b>Government Funding</b>					
Reduction in Government RSG Funding (four year settlement to 19/20, then 25% reduction year on year)	6,374	3,131	2,348	1,761	
Reduction in Public Health Grant (Indicative allocations announced for 19/20)	509	-	-	-	
Reduction in New Homes Bonus	198	762	71	238	
Reduction in Education Services Grant	-	205	-	-	
Reduction in Housing Benefit Admin Grant	104	95	87	-	
Reduction in Local Reform and Community Voices	16	12	-	-	
Reduction in Independent Living Fund	33	32	-	-	
Increase in Improved Better Care Fund (IBCF1)	(3,800)	-	-	-	
Reduction in Improved Better Care Fund (IBCF2)	1,655	1,624	-	-	
<b>Total Government Funding Adjustments</b>	<b>5,090</b>	<b>5,862</b>	<b>2,506</b>	<b>1,999</b>	
<b>Local Funding Sources</b>					
Council Tax - 1.99% increase	(1,868)	(1,922)	(1,971)	(2,022)	
Council Tax Base Uplift	(826)	(842)	(572)	(584)	
Business Rates Tax Base Growth	(2,171)	(2,012)	(2,316)	(2,406)	
Collection Fund Adjustment	(3,025)	-	-		
Fees and Charges	(694)	(715)	(737)	(759)	
<b>Total Local Funding Adjustments</b>	<b>(8,584)</b>	<b>(5,490)</b>	<b>(5,596)</b>	<b>(5,770)</b>	
<b>Estimated Total Movement in Overall Funding</b>	<b>(3,494)</b>	<b>371</b>	<b>(3,091)</b>	<b>(3,772)</b>	
<b>Inflation Assumptions</b>					
Pay Inflation (1% had been assumed in 18/19. Actual 2% in 18/19 and 19/20. 2% assumed for 19/20 onwards)	3,150	2,121	2,163	2,207	
Contractual inflation	1,976	2,031	2,088	2,146	
Energy and Supplies & Services Inflation	393	407	422	438	
<b>Budget Pressures</b>					
<b>People's Directorate:</b>					
Adult Services Review of Commissioned Care Costs (Living Wage Implications)	311	2,010			
Removal of pressure to match revised forecast Independent Living Fund Grant	26				
Continuation of Care Act and demographic social care pressures		608	638		
<b>Communities &amp; Place Directorate:</b>					
Moorways Swimming Pool Running Costs		400			
Cultural Events and Christmas Lights (19/20 is a reduction of a one off allocation)	(150)				
Tree Management (Part removal of pressure given in 18/19)		(100)			
<b>Corporate</b>					
National Living Wage	61	326			
Reversal of one off write offs of uncashed Business Rates cheques	158				
<b>New Pressures:</b>					
Corporate Resources - Apprentice Levy Project Manager	28				
Corporate Resources - Risk Management Resource	48				
Comms & Place - Additional Streetscene Work	185				
Peoples Adult Social Care - Improved Better Care Fund Pressures	4,904				
Children's Services - Looked After Children Pressures	4,000				
<b>Total Pressures</b>	<b>15,090</b>	<b>7,804</b>	<b>5,312</b>	<b>4,791</b>	
<b>Sum Required to Balance Budget</b>	<b>11,596</b>	<b>8,175</b>	<b>2,221</b>	<b>1,020</b>	
Treasury Management including Capital Financing Costs	687	(235)	(158)	(154)	
Savings Proposals as agreed as part of 17/18 MTFP	(2,514)	(225)			
Previously Agreed Staffing Efficiency Savings in 2018/19 Now Considered to be Unachievable	1,480				
Previously Agreed Staffing Efficiency Savings in 2019/20 Now Considered to be Unachievable	950				
					<b>Total</b>
<b>Current Budget Gap</b>	12,199	7,715	2,063	866	22,843