



Derby City Council

**COUNCIL CABINET**  
**17 January 2018**

Report of the Cabinet Member for Finance &  
Governance

# ITEM 13

## Council Budget Proposals 2018/19

### SUMMARY

- 1.1 This report sets out Cabinet's proposals to Council in respect of the budget for the financial year 2018/19 and includes the following proposals set out in Section 4 of the report:
- The Council tax base and proposed increase for Band D households – 4.1
  - The Gross Revenue budget – 4.2
  - The Net Revenue Budget and net spending limits for each Directorate – 4.3
  - The Capital Programme - 4.7
  - The Treasury Management Strategy, Statement and Policy – 4.8
  - Financial Risk Assessment – 4.9
  - Medium Term Financial Plan – 4.10
  - The HRA budget proposals, 30 Year plan update and rent/service charge increases for 2018/19 – 4.11
  - Dedicated Schools Grant Allocations and proposed changes to the funding formula for schools – 4.12
  - The Council's Reserves and Policy – 4.13
  - Results of Budget Consultation - 4.14
  - Equality Impact Assessment Summary – 4.15
- 1.2 The report also provides a summary of the Council's Medium Term Financial Strategy with outline revenue, capital and treasury management plans for the next three years to ensure Council considers the budget in the light of longer term financial sustainability.
- 1.3 The report includes the detailed assumptions behind the budget proposals including specific cost pressures and savings proposals required to deliver a balanced budget for 2018/19.
- 1.4 The 2018/19 budget proposals have been subject to consultation during the autumn of 2017 and the responses received are analysed in Appendix 10 including the Cabinet's responses to the consultation.

## RECOMMENDATIONS

- 2.1 That Cabinet consider the report and recommend approval by Council of the Council Tax base of 67,610.42 and increase in Council Tax for 2018/19 for Derby City Council being:
- an increase in Council Tax of 2.99%
  - an Adult Social Care Precept of 3.0%.

A total increase of 5.99% resulting in an increase of £77.76p on a Band D equivalent household as set out in section 4.1 of the report.

- 2.2 To delegate to the S.151 Officer the final calculation of Council Tax, reflecting the precepts for the Fire and Police authorities when received, and to issue Council Tax bills in March 2018 in line with Section 30 of the regulations.

- 2.3 To recommend the Cabinet's budget proposals as set out in the report for consideration and approval by Council, at its meeting on 24 January 2018, and specifically:

- The Gross Revenue Budget of £630.047m
- The Net Revenue budget of £217.782m
- The net spending limits for each directorate being:
  - People's £142.915m
  - Communities and Place £42.681m
  - Organisation and Governance £23.708m
  - Corporate £8.478m
- The Capital Programme for 2018/19 amounting to £134.289m
- The Treasury Management Strategy
- The HRA budget proposals, 30 Year plan update and rent/service charge increases for 2018/19
- To set the Council's strategic reserve as 5% of its net Revenue budget.

- 2.4 To note the Council's Medium Term Financial Plan for the years 2018/19 to 2020/21 and the proposals set out therein for revenue, capital and treasury implications.

- 2.5 To note the Financial Risk Assessment.

- 2.6 To consider the results of the Budget Consultation and Cabinet's response to that process.

- 2.7 To consider and seek approval by Council the 2018-2019 allocation of the Dedicated Schools Grant of £226.774 million and changes to Derby City's Schools Funding Formula as a response to the implementation of a National Funding Formula for Schools.

- 2.8 To delegate approval to the S.151 Officer to make necessary changes to the budget arising from the Government's Financial Settlement as and when confirmed and any technical adjustments to the Treasury Management Strategy arising from the revised Prudential Code.

## REASONS FOR RECOMMENDATION

- 3.1 To ensure the Council complies with its statutory obligation to set a balanced budget for 2018/19 in line with the LGA 1992.

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## SUPPORTING INFORMATION

### 4.1 The Council tax base and proposed increase for Band D households

- a. The Council Tax base is calculated in accordance with the Local Authorities (calculation of Council Tax base) regulations 2012 as summarised below:-

Number of Band D equivalent households		<b>Budget</b>
	2017/18	<b>2018/19</b>
Council Tax base at 30/11/17		<b>77,051.30</b>
Less reduction in respect of the Council Tax Support Scheme		<b>(8,046.97)</b>
Less other adjustments for future technical changes		<b>(154.62)</b>
		<b>68,849.71</b>
Collection Rate of 98.2%		<b>(1239.29)</b>
<b>Council Tax Base</b>	66,574	<b>67,610.42</b>

The full analysis of the calculation and the key elements applied is provided in Appendix 2 (item 12 on Cabinet Agenda).

- b. The Council Tax requirement is the difference between the Council's gross budget and the income it expects to receive from all other sources; subject to the "cap" set by Government of 3% per annum.

<b>Council Tax Requirement</b>	Actual	Forecast	<b>Budget</b>
<b>£ millions</b>	2016/17	2017/18	<b>2018/19</b>
Net Budget Requirement	219.225	214.978	<b>217.782</b>
Business Rates	(58.520)	(59.883)	<b>(64.007)</b>
Revenue Support Grant	(34.616)	(25.203)	<b>(18.898)</b>
Collection Fund (surplus)/deficit	(1.021)	(0.114)	<b>3.025</b>

Other Grants	(44.527)	(43.354)	<b>(44.875)</b>
<b>Council Tax Requirement</b>	<b>80.541</b>	<b>86.424</b>	<b>93.027</b>

- c. The Council Tax to be applied to the Band D equivalent households is calculated by dividing the Council Tax Requirement by the Council Tax base. This generates an increase in Band D tax for the year of £77.76p, an increase of 5.99%. This provides a Band D Council Tax bill for the year 2018/19 of £1,375.93p.

Band D Council Tax	Actual 2016/17	Forecast 2017/18	<b>Budget 2018/19</b>
Council Tax Requirement (£m)	80.541	86.424	93.027
Council Tax Base (Number)	65.138	66.574	67.610
<b>Band D (£m)</b>	<b>1236.47</b>	<b>1298.17</b>	<b>1375.93</b>
Increase in year		61.70	77.76
<b>% Increase</b>	<b>3.99%</b>	<b>4.99%</b>	<b>5.99%</b>
Being:			
<b>Council Tax</b>	<b>1.99%</b>	<b>1.99%</b>	<b>2.99%</b>
<b>Adult Social Care Precept</b>	<b>2.00%</b>	<b>3.99%</b>	<b>3.00%</b>

- d. The Council Tax payable by each household band is as follows:-

Council Tax per Dwelling Band	Proportion	Actual 2016/17	Forecast 2017/18	<b>Budget 2018/19</b>
Band A - Disabled	5/9	686.93	721.21	<b>764.41</b>
Band A	6/9	824.31	865.45	<b>917.29</b>
Band B	7/9	961.70	1009.69	<b>1070.17</b>
Band C	8/9	1099.08	1153.93	<b>1223.05</b>
Band D	<b>9/9</b>	<b>1236.47</b>	<b>1298.17</b>	<b>1375.93</b>
Band E	11/9	1511.24	1586.65	<b>1681.69</b>
Band F	13/9	1786.01	1875.13	<b>1987.45</b>
Band G	15/9	2060.78	2163.62	<b>2293.22</b>
Band H	18/9	2472.94	2596.34	<b>2751.86</b>

#### 4.2 The Gross Revenue Budget

The Council's Gross Revenue budget is the total of all income from grants, Council Tax and Business Rates expected to be received in the year. For 2018/19 this is budgeted to be £630.047m and is further analysed in below:-

<b>Total Income</b>	Actual 2016/17	Forecast 2017/18	<b>Budget 2018/19</b>
£millions			
Dedicated Schools Grant	205.464	214.938	<b>214.938</b>
Other Grants (RSG,PH,BCF)	79.143	71.627	<b>63.773</b>

Business Rates	59.541	59.883	<b>60.982</b>
Council Tax	80.541	86.424	<b>93.027</b>
Fees and Charges	195.610	196.397	<b>197.327</b>
<b>Gross Revenue Budget</b>	<b>620.299</b>	<b>629.269</b>	<b>630.047</b>

#### 4.3 The Net Revenue Budget and Directorate Spending Limits

The net revenue budget is the balance between the gross revenue budget and the total cost of services provided by the Council. For 2018/19 this is budgeted to be £217.782m and is analysed in the table below:-

<b>Total Income</b>	Actual	Forecast	<b>Budget</b>
£millions	2016/17	2017/18	<b>2018/19</b>
Gross Budget	620.299	629.269	<b>630.047</b>
Total Income before Core Gov't Grants, CT and Business Rates	(401.074)	(414.291)	<b>(412.265)</b>
<b>Net Budget</b>	<b>219.225</b>	<b>214.978</b>	<b>217.782</b>

The revenue budget construction is summarised below, using the Council's actual outturn 2016/17 and adjusting for known demand pressures, inflationary pressures and savings proposals. These have been consulted on during the autumn of 2017, the results of which are set out in Appendix 10.

<b>Budget Summary</b>	Actual	Budget	<b>Budget</b>
£millions	2016/17	2017/18	<b>2018/19</b>
Net Budget	221.517	221.517	220.246
Demand/Service Pressures	-	8.106	6.760
Inflationary Pressures	-	2.634	2.658
Savings Proposals	-	(11.345)	(12.759)
Reduction in Public Health Funding/and other movements	-	(0.666)	0.877
Net Budget before use of reserves	221.517	220.246	<b>217.782</b>
Use of/(contribution to) reserves	(2.292)	(5.268)	
<b>Proposed Revenue Budget</b>	<b>219.225</b>	<b>214.978</b>	<b>217.782</b>

The Proposed Revenue Budget has been allocated to the Council's major Directorates to set a net spending limit for each Directorate of:

<b>Net Spending Limits</b>	Actual	Budget	<b>Budget</b>
£millions	2016/17	2017/18	<b>2018/19</b>
People's	140.028	140.681	<b>142.915</b>
Communities and Place	43.396	42.688	<b>42.681</b>
Corporate Resources	25.978	25.041	<b>23.708</b>
Corporate Costs	12.115	11.836	<b>8.478</b>

Proposed Revenue Budget	221.517	220.246	<b>217.782</b>
Use of/(contribution to) reserves	-2.292	-5.268	
Revenue Budget	219.225	214.978	<b>217.782</b>

#### 4.4 Budget Pressures

A detailed analysis of the identified cost pressures are provided in the table below. These have been determined within individual directorates and been subjected to challenge by Cabinet and COG during the budget planning meetings held in the summer of 2017.

<b>Identified Cost Pressures</b>	<b>Budget</b>
<b>£ thousands</b>	<b>2018/19</b>
<b>People's:</b>	
Review of Commissioned Care Costs	400
Refocus of provision to the Livewell service - Alison to confirm (£300k in 18/19 to be funded from reserves)	700
Incremental Pressure	500
Additional staffing capacity to respond to a significant increase in child protection plans	147
Children's Social care Placements	1200
<b>Identified Budget Pressures</b>	<b>2,947</b>

<b>Identified Cost Pressures</b>	<b>Budget</b>
<b>£ thousands</b>	<b>2018/19</b>
<b>Communities and Place:</b>	
Revenue property maintenance	500
Tree Management	380
Communities & Place - Economic Partnership Activity (actual pressure £450k but £268k is carried within 16/17 outturn).	182
OCOR Revenue Pressure (Shortfall previously funded from reserves up to 17/18, now an ongoing pressure)	100
Enforcement Team Pressure	160
Cultural Events and Christmas Lights	465
<b>Communities and Place Budget Pressures</b>	<b>1,787</b>

<b>Identified Cost Pressures</b>	<b>Budget</b>
<b>£ thousands</b>	<b>2018/19</b>
<b>Organisation and Governance:</b>	
Information Governance - New posts	80
Continued identification of eligible HB overpayments	250
Management Restructure	500
<b>Organisation and Governance Budget Pressures</b>	<b>830</b>

<b>Identified Cost Pressures</b>	<b>Budget</b>
£ thousands	<b>2018/19</b>
<b>Corporate:</b>	
Apprentice Levy (Levy + 50 additional apprentices)	325
Reversal of one off benefit arising from uncashed cheques written back in 2016/17	871
<b>Corporate Pressures</b>	<b>1,196</b>
<b>Total Demand and Service Pressures</b>	<b>6,760</b>

#### 4.5 Budget Savings

The following tables set out the proposed budget savings to be delivered to offset the increase pressures arising from inflation and service demand and cost pressures. Additional detail relating to these savings proposals is provided in Appendix 3.

<b>Identified Savings</b>	<b>Budget</b>
£ thousands	<b>2018/19</b>
<b>People's:</b>	
Remodelling of the service model for Council owned Care homes and Day Services	(200)
Refocus of provision to the Livewell service	(1,000)
Efficiencies in Public Health contract	(150)
Removal of previous years pressure to match revised forecast ILF grant	(27)
Establish alternative funding streams for the in-house domestic violence service provision	(11)
Efficiencies in Post 16 transport	(100)
Efficiencies from reviewing residential placements for children in care	(1,200)
<b>People's Savings</b>	<b>(2,688)</b>

<b>Identified Savings</b>	<b>Budget</b>
£ thousands	<b>2018/19</b>
<b>Communities and Place:</b>	
Efficiencies in energy management	(44)
Savings in property management costs as a result of Property Rationalisation programme	(450)
Review of parking and traffic management enforcement activities and charged parking areas	(200)
Reduction in arts grants staffing resource in 2017/18. Removal of on-going annual funding to partner arts organisations in 2018/19 as part of a new approach to delivering a sustainable cultural offer for the city	(270)

Removal of on-going annual funding to the Museums Trust in 2018/19 as part of a new approach to delivering a sustainable cultural offer for the city	(684)
Strategic review of libraries service	(337)
Staff reductions and efficiencies within leisure services resulting in the closure of water play facilities at Arboretum Park and further rationalisation of football provision.	(106)
Increased income opportunities and continued staffing efficiencies	(113)
Service efficiencies associated with vacancy management and targeted income generation	(100)
<b>Communities and Place Savings</b>	<b>(2,304)</b>

<b>Identified Savings</b>	<b>Budget</b>
£ thousands	<b>2018/19</b>
<b>Organisation and Governance</b>	
On-going Information Systems (IS) review	(283)
Registration Services - Efficiency review	(49)
Removal of previous year pressure to increase resilience in accountancy	(140)
Staffing Efficiencies	(1,863)
<b>I Organisation and Governance Savings</b>	<b>(2,335)</b>

<b>Identified Savings</b>	<b>Budget</b>
£ thousands	<b>2018/19</b>
<b>Corporate:</b>	
Removal of previous year pressure to Increase in pension contribution rate following triennial review	(783)
Removal of previous year Pressure for Apprenticeship Levy	(455)
Review of Treasury Management Policy (MRP)	(4,194)
<b>Corporate Savings</b>	<b>(5,432)</b>
<b>Total Savings</b>	<b>(12,759)</b>

#### 4.6 Key Assumptions

The proposed revenue budget includes a number of key assumptions which may or may not crystallise during the year; these have been assessed as “risks” rather than specific “pressures” and have been subjected to a sensitivity analysis to assess the potential impact on the budget.

<b>Key Budget Assumptions</b>	<b>Budget</b>
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	<b>Risk</b>	<b>Potential Impact</b>	<b>2018/19</b>
	Current 1% pay “cap” remains	1% increase means £1.0m cost	<b>1.000</b>
	Salary increments managed through existing budgets	Ability to do so in past may no longer be possible	<b>1.000</b>
	Inflation does not rise by 0.5%	1% rise results in £1.1m cost	<b>1.000</b>
	Interest rates do not exceed 0.5%	Debt fixed so would provide a benefit of £0.4m	<b>(0.400)</b>
	No major changes in Government settlement	Settlement to be analysed but some upside benefit	<b>-</b>
	Potential Impact		<b>2.600</b>

The potential risk considered in the revenue budget can be managed through the Council’s reserves and a proposed increase in the Councils General Reserve is recommended in section 4.11.

#### 4.7 Capital Programme

The Council’s capital programme is summarised in the following tables and provided in full in Appendix 4. The summary below includes the planned expenditure within the HRA and General Fund and is analysed by major project area.

The funding of the programme assumes the use of the Council’s existing cash resources to fund expenditure in advance of any identified borrowing requirement to both mitigate the cost of borrowing and the carrying cost of borrowing in advance of expenditure.

The programme is supported by external funding finance in respect of many of the project areas but the Council’s existing resources are expected to be applied to fund its major projects such as the Pool and Waste Plant. Some projects are included in the summary which have yet to have funding specifically identified and these will only proceed as and when funding is available eg OCOR.

<b>Capital Programme</b>	<b>Budget 2018/19</b>	<b>Plan 2019/20</b>	<b>Plan 2020/21</b>	<b>Plan 2021/2022</b>
Total Schools Programme	<b>14,842,692</b>	21,923,249	7,655,162	7,380,000
Total Housing General Fund Programme	<b>4,155,000</b>	3,620,000	3,039,000	3,039,000
Total Property Programme	<b>25,503,000</b>	26,937,000	4,887,000	4,787,000

Total Flood Defence Programme	<b>13,341,406</b>	24,845,465	17,761,611	4,657,331
Total Highways & Transport programme	<b>14,102,524</b>	8,163,500	6,270,000	5,900,000
Total Vehicles Plant & Equipment	<b>25,480,000</b>	4,772,000	370,000	-
Total Regeneration Programme	<b>14,722,538</b>	14,674,593	21,956,000	23,006,017
Total ICT	<b>2,925,000</b>	1,050,000	200,000	-
Total HRA	<b>19,217,000</b>	17,742,000	16,209,000	20,805,000
Total	<b>134,289,160</b>	<b>123,727,807</b>	<b>78,347,773</b>	<b>69,574,348</b>

The funding summary which supports the capital programme is set out below:-

Funding Summary	<b>Budget 2018/19</b>	<b>Plan 2019/20</b>	<b>Plan 2020/21</b>	<b>Plan 2021/2022</b>
External Funding	53,314,739	60,736,902	45,596,773	17,626,331
Capital receipts	7,100,000	5,699,000	2,437,000	3,161,017
Service Funding from Revenue budgets	2,152,000	3,000,000	3,000,000	3,000,000
RCCO	794,547	500,000	500,000	500,000
Council Funding	51,710,874	36,049,905	10,605,000	24,482,000
<b>Funding</b>	<b>115,072,160</b>	<b>105,985,807</b>	<b>62,138,773</b>	<b>48,769,348</b>
HRA	19,217,000	17,742,000	16,209,000	20,805,000
Total Funding	<b>134,289,160</b>	<b>123,727,807</b>	<b>78,347,773</b>	<b>69,574,348</b>

The summary above indicates that the capital programme is balanced and fully funded and indicates that additional borrowings by the Council will not be required until 2020/21.

#### 4.8 Treasury Management Strategy

The Council is required to adopt an annual Treasury Management Strategy Statement (TMSS) each year as part of the budget setting process in order to fully recognise the financial implications arising from its revenue and capital budgets through the capital financing requirement to ensure the impact of capital investment is fully reflected in the revenue budget; this is provided through the Minimum Revenue Provision (MRP).

The TMSS is a summary of the Treasury Management Strategy (TMS) which provides a more detailed analysis of the council's loans and investments and the future outlook for interest rates and financing, supported by the Council's external treasury management advisors, Arlingclose.

The TMS for 2018/19 sets out the council's strategy for making borrowing and investment decisions during the year to meet the capital and revenue spending plans approved by council and considers the impact of future interest rate movements.

The full TMS is set out in detail in Appendix 5 and contains no significant changes to previous years. Further "technical" adjustments will be required to comply with the revised Prudential Code to be published in January.

#### Council Borrowings

The table below summarises the Council's current borrowing position reflecting a net debt position of £378.572m of which some £230m relates to funding the HRA social housing stock.

	£000
<b>External Borrowing:</b>	
- Fixed Rate PWLB	304,877
- Fixed Rate Market (LOBO's)	20,000
- Other Local Authorities	35,000
- Other loans	2,721
Other Long-term Liabilities:	
- Transferred Debt from other Local Authorities	2,931
- PFI Financing	98,442
- Finance Leases	826
<b>Total Gross External Debt</b>	<b>464,797</b>
<b>Treasury Investments:</b>	
- Local Authority Fixed Term Deposits	(46,000)
- Money Market Funds	(39,336)
- Unsecured Banks	(888)
<b>Total Treasury Investments</b>	<b>(86,225)</b>

<b>Total Net External Debt</b>	<b>378,572</b>
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### Projected Cash Flow

The Treasury management strategy seeks to minimise the cost of financing by ensuring new debt is only incurred when required and that lines of credit remain available to obtain finance when required. This has meant that the MTFP does not indicate a need to increase borrowings until 2020/21 as set out in the summary below:-

<b>Cash Flow Forecast</b>	<b>2017/18 Forecast</b>	<b>2018/19 Budget</b>	<b>2019/20 Planned</b>	<b>2020/21 Planned</b>
Opening cash and investments	72.4	75.0	55.0	40.0
Increased cash from upfront payments for services		10.0	5.0	-
Capital Receipts from selling unwanted properties		10.0	5.0	-
		<b>95.0</b>	<b>65.0</b>	<b>40.0</b>
Applied to Capital expenditure	-	(40.0)	(15.0)	(5.0)
Closing Cash and investments	<b>75.0</b>	<b>55.0</b>	<b>40.0</b>	<b>35.0</b>
Total Borrowings	<b>362.0</b>	<b>362.0</b>	<b>362.0</b>	<b>362.0</b>
Forecast net borrowing position	<b>287.0</b>	<b>307.0</b>	<b>322.0</b>	<b>327.0</b>

By minimising the level of actual borrowings by utilising existing cash resources, the Council is “under-borrowed” that is, not matching cash with commitments in respect of the total reserves of the Council. The Council’s treasury management advisors, Arlingclose, support this strategy while interest rates remain low and the cost of carrying debt is high.

#### 4.9 Financial Risk Assessment

The most substantial risks have been assessed in the budget process and, where possible, reasonable mitigation has been made. Risks will be monitored through the year and reported to Cabinet as part of the budget monitoring process. The proposed budget includes contingency and reserves that, if required, can be used to manage risks.

Demand management in adult social care and looked after children continues to be a key issue, against a backdrop of a demographic of older people rising faster than the national average. Focusing public health commissioning and strategy on demand management through disease prevention and behavioural change is critical for medium term change. There are on-going risks in managing children’s safeguarding costs, Derby has a high level of spend

compared to statistical neighbours and methods of reducing this cost are progressing however some delays have been experienced.

The changes required by the Council to address the issues raised in the Corporate Peer Challenge and Auditors Value for Money opinion in 2017 have been consolidated into a Corporate Improvement Plan. The progress to embed real change in the Council is likely to require resources and focus by officers, which may impact performance requirements.

A full risk and mitigation summary is provided in Appendix 6.

#### 4.10 Medium Term Financial Strategy

The Council has a statutory duty to set a balanced revenue budget each financial year but it considered good practice to look further ahead of a single year to ensure that there are plans in place to secure the longer term financial stability of the Council.

The report sets out the longer term impact of the Council's capital programme and Treasury Management activity above therefore this section provides an overview of the Revenue budget forecasts over the coming years.

<b>Medium Term Financial Plan</b>	<b>Budget</b>	Plan	Plan	Plan
£ millions	<b>2018/19</b>	2019/20	2020/21	2021/22
Base Budget	220.246	216.905	219.680	225.247
Pressures	6.760	2.714	3.244	3.124
Inflation	2.658	2.725	2.783	2.845
Savings	(12.759)	(2.664)	(0.460)	(0.158)
Revised Base	216.905	219.680	225.247	231.058
Use of Reserves				
Net Budget	<b>216.905</b>	219.680	225.247	231.058
<b>Total funding available*</b>	<b>216.905</b>	219.680	218.023	219.825
Budget Gap/Savings			(7.224)	(11.233)

The table above provides a summary of the revenue budget projections to 2020/21 based on the assumptions and base budget derived from the 2018/19 budget proposals.

The MTFP is based on an incremental budgeting model which looks at the changes between years rather than constructing the budget from scratch each year. The model indicates that the Council is able to balance its budget for 2018/19 and 2019/20 but in 2020/21 the increasing pressure arising from rising demand in People's Services cannot be contained within the existing budget envelope and results in a projected overspend of £7.224m.

This "budget gap" will be reviewed over the coming year and actions identified to generate additional income or reduce the cost of service delivery.

The full Medium Term Financial Strategy is provided in Appendix 7.

#### 4.11 Housing Revenue Account (HRA) budget proposals and rent/service charge increases for 2018/19

The HRA is a ring-fenced vehicle to control the Council's social housing stock which is managed on a day to day basis by its subsidiary, Derby Homes Ltd, an Arms Length Management Organisation (ALMO). At the end of March 2017, the Council owned 13,715 dwellings.

The HRA is required to forecast its operating budget over a period of 30 years and this is summarised in Appendix 8. The table below provides a summary of its operating surplus/(deficit) for the three years including the proposed budget for 2018/19:

	2016/17 Actuals £'000	2017/18 Forecast £'000	2018/19 Budget £'000
Expenditure	61,967	56,499	<b>58,163</b>
Income	59,726	57,534	<b>56,268</b>
Surplus	(2,241)	1,035	<b>(1,895)</b>
Capital Expenditure	13,940	13,684	<b>19,217</b>

The Council is responsible for setting the rents and service charges to be applied to its dwellings for the 2018/19 financial year and the following increases are proposed for approval by Council:

- Council Housing rents – 1% decrease, as required by legislation;
- Other Housing rents – 3.9% (RPI) increase, as allowable under relevant legislation. This includes Milestone House, Imari Park, Shelton Lock, garages and other Council set rents;
- Service charges - 3.9% (RPI) increase, to reflect rises in costs, except the following:
  - Cleaning and Grounds Maintenance service charges – 10% capped increase to reflect specific cost pressures associated with these services, including the National Living Wage
  - Furnished tenancies / furniture packs – no change; offering better value for money

In addition the HRA has assumed the following charges in respect of Derby Homes management and Maintenance fees:

- Derby Homes management fee - £10.343m (£10.079m in 2017/18)
- Derby Homes maintenance fee - £17.141m (£16.678m in 2017/18)

This reflects an overall increase in management and maintenance fees of £0.727m, an increase of 2.7%.

#### **4.12 Dedicated Schools Grant (DSG)**

The 2018-2019 allocation for the DSG is £226.774 million and is made up of four blocks of funding:

- Schools Block £168.596m
- Central School Services Block £3.919m
- High Needs Block £34.588m
- Early Years Block £19.671m

#### **Changes to Derby City Schools Funding Formula 2018-2019**

As part of the national changes to schools funding, the Department for Education (DfE) launched a consultation (March 2016) on a new national school funding formula (NFF). While it remains the government's intention that a school's budget should be set on the basis of a single national formula, in 2018 to 2019 and 2019 to 2020, local authorities will continue to determine final funding allocations for schools through a local formula. The changes considered affect the Schools Block funding only of the DSG.

The Council issued a consultation document on 27 November 2017 detailing proposals on the changes to the local funding formula in readiness for the implementation of a NFF. Schools Forum considered these responses and approved the Council's proposals at their meeting on 12 December 2017.

#### **Areas considered within the consultation and proposals are:**

- The pace towards the full implementation to the NFF
  - to move to the NFF from April 2018
- Levels of the Minimum Funding Guarantee (MFG)
  - to set a protection for schools of 0% MFG; this means that no school will lose as a result of these changes (subject to falling pupil numbers which is not protected)
- Capping mechanisms
  - to implement a capping mechanism to manage the affordability of the model. The full gains of the NFF have not been passed to local authorities due to national funding constraints. To implement the

NFF Derby would require an additional £9 million as opposed to the £5 million actually received as part of the funding settlement (subject also to pupil number growth). A capping mechanism is required to scale the increases back to the overall funding allocation. It is proposed that a capping level of 2.65% is required but will be subject to final school budget calculations

- Infant Class Size Funding
  - this is a local factor for funding to schools in Derby and gives additional funding to infant schools to maintain the national required levels of a 30 pupil class size limit. This additional funding does not feature as a factor in the NFF but its immediate removal would have a detrimental impact on small infant schools. It is proposed that this factor is maintained and phased out over a three year period.

#### **4.13 Reserves**

The Council holds a number of reserves which have been set aside for specific purposes and a general reserve to offset the impact of significant and unforeseen events.

At the 31 March 2017 the Council's total useable reserves were £199.035m of which £47.017 were ring-fenced to the HRA, £35.510m for Capital investment, School balances of £10.525m and £24.827m PFI reserves leaving £81.136m for general and specific reserves.

Of the £81.136m, the General Reserve is £8.764m, 4% of its net revenue budget. CIPFA best practice guidance suggests that a Council should hold a strategic reserve to mitigate the financial impact of major events of between 3% and 5% of its net budget.

This guidance has been adopted by the Chief Finance Officer for the budget and MTFP but, in order to reflect the additional risks assumed in the revenue budget, is recommending an increase in the General Reserve to 5% of net revenue budget to £10.830m.

The Chief Finance Officer is satisfied that the Council's ongoing approach to its reserves and provisions is robust but is recommending that the General Reserve be increased to reflect 5% of the proposed net revenue budget for 2018/19.

This is deemed sufficient to ensure that the council has adequate resources to fund unforeseen financial liabilities, and that the council's approach to general balances for 2018/19 is deemed appropriate.

The Reserves policy is set out in Appendix 9.

#### **4.14 Budget consultation**



The Council's initial budget proposals were published on 2 November 2017 for the public to express their views via a website portal and their responses and comments are summarised in Appendix 10.

A formal meeting with private sector representatives was held in the Council House on 21 November to seek the views of the City's business sector on both the budget proposals and investment plans included in the MTFP; their comments are also summarised in Appendix 10. In addition, a meeting was held with members of the city's youth forum, Voices in Action, to ensure their views were also taken into account in setting the 2018/19 budget proposals.

The annual budget consultation opened in November 2017. It gave local residents and stakeholders the opportunity to comment on the Council's initial budget proposals for 2018/19 and invited their feedback. The initial proposals set out all the main elements of the budget, including how it was expected to be funded and the savings needed. The public consultation was open for six weeks between 2 November and 13 December 2017 via an online survey available on the Derby City Council website. There was also the opportunity to request the consultation documents in paper, easy read or translated formats. There were 26 respondents to the online survey and their responses and comments are summarised in Appendix 10. The most comments referred to the proposed budget cuts to the Livewell programme, with many stating their concerns about the impact this could have on health and wellbeing across the city.

A formal meeting with private sector representatives was held in the Council House on 21 November to seek the views of the City's business sector on both the budget proposals and investment plans included in the MTFP; their comments are also summarised in Appendix 10. In addition, a meeting was held with members of the city's youth Council, Voices in Action, to ensure their views were also taken into account in setting the 2018/19 budget proposals.

As a result of the budget consultation process a number of changes were made to the funding and savings proposals and are summarised in the table below:

	Pressures £000's	Savings £000's	Reason for change
Changes:			
B-line saving - removed		(80)	Voices in Action response
Community Support - added	160		Response to public concerns
Staff Saving – re-phased		(1,500)	Scrutiny concerns
Salary increments	500		Revised assumption
Tree safety	100		Revised assumption
Cultural Events	465		Response to public
Management restructure	500		Response to Peer Review
Livewell saving removed		(700)	Response to public concerns
Rise in Children placements	1,200		Reflects current demand
Social Care resource	147		Revised assumption
<b>Impact of Consultation</b>	<b>3,072</b>	<b>(2,280)</b>	<b>£5,352k</b>

#### 4.15 Equality Impact Assessment (EIA)

All savings proposals included in the 2018/19 budget were subjected to Equality Impact Assessments during the 2017/18 budget construction. As such a further EIA will be prepared following the approval of the saving proposals by Council and before it is implemented.

This report has been approved by the following officers:

<b>Legal officer</b> <b>Financial officer</b> <b>Human Resources officer</b> <b>Service Director(s)</b> <b>Other(s)</b>	Monitoring Officer Janie.Berry@derby.gov.uk Section 151 Officer Mark.Taylor@derby.gov.uk  Chief Officer Group
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<b>For more information contact:</b> <b>Background papers:</b> <b>List of appendices:</b>	Appendix 1 – Implications Appendix 2 - Council Tax Base – see separate agenda item 11 Appendix 3 – Detailed Pressures and Savings Proposals – to follow Appendix 4 – Detailed Capital Programme Appendix 5 – Treasury Management Strategy Appendix 6 – Risk Management Appendix 7 – Medium Term Financial Strategy Appendix 8 – HRA Plan
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	Appendix 9 – Reserves Policy Appendix 10 – Derby Budget Consultation Analysis 2018
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<b>IMPLICATIONS</b>
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**Financial and Value for Money**

1.1 As outlined in the report.

**Legal**

2.1 As outlined in the report.

**Personnel**

3.1 As outlined in the report.

**Equalities Impact**

4.1 As outlined in the report.

**Health and Safety**

5.1 None for consideration.

**Environmental Sustainability**

6.1 As outlined in the report.

**Asset Management**

7.1 As outlined in the report.

**Risk Management**

8.1 As outlined in the report.

**Corporate objectives and priorities for change**

9.1 As outlined in the report.



**Appendix 3 to follow**

**Detailed Pressure and Savings analysis**