



Medium Term Financial Strategy 2017/18 to 2019/20

SUMMARY

- 1.1 This report outlines the Medium Term Financial Strategy - MTFS - for the revenue and capital budget over the three year period 2017/18 to 2019/20. 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 identified by the Council. It also comments on the risks facing the Council in the forthcoming years and explains what the Council is doing to mitigate these risks.

RECOMMENDATIONS

- 2.1 To endorse the Council's Medium Term Financial Strategy for 2017/18 to 2019/20 and recommend that Full Council approve this Strategy.
- 2.2 To note the estimated financial position and funding gaps for 2017/18 to 2019/20, and the assumptions included within these forecasts, as set out in section 10.
- 2.3 To note the budget risks associated with the MTFS, as set out in section 12.
- 2.4 To approve the outline timetable including consultation periods set out in section 13.

REASONS FOR RECOMMENDATIONS

- 3.1 To gain Cabinet approval to the approach to formulating the budget plan for 2017/18 to 2019/20.
- 3.2 The Council is required to set balanced revenue and capital budgets for 2017/18 by March 2017. 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.



SUPPORTING INFORMATION

4. Introduction

4.1 Key areas of the report are outlined below:

- MTFS in context outlined in section 5
- the Council's current Medium Term Financial Plan - MTFP - for 2016/17 to 2018/19, outlined in section 6
- the current national context outlined in section 7
- the current local context outlined in section 8
- the Strategy outlined in section 9
- the draft Medium Term Financial Plan for 2017/18 to 2019/20, outlined in section 10
- the 2017/18 to 2019/20 capital strategy, outlined in section 11
- risk planning, outlined in section 12
- the consultation and budget timetable, outlined in section 13

5. Medium Term Financial Strategy – MTFS - in context

- 5.1 The MTFS is a strategy for the revenue and capital budget over the next three year period, 2017/2018 to 2019/2020. 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, including cost and service demand increases and the approach planned to meet the priorities of the Council. It also outlines significant risks facing the council and considers actions to mitigate these risks.
- 5.2. 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.
- 5.3 The Council's Medium Term Financial Strategy should ensure that any budgetary decisions are based on the priorities for the city.

6. The Current MTFP – 2016/17 to 2018/19

- 6.1 The current MTFP identified £44.8m of permanent savings over three years. For 2016/17, £19.0m of savings were identified and are currently being tracked for delivery. Achievement of these savings is monitored and managed by officers and reported to

Cabinet on a regular basis.

- 6.2 Further savings requirements of £10.6m in 2017/18 and £15.2m in 2018/19 were also identified.
- 6.3 The Council applied £9.8m of reserves within the current MTFP, to smooth the transition of service reductions through to 2018/19.

7. National Context

- 7.1 The new Chancellor, Philip Hammond, has indicated there will be a loosening of the Government's fiscal policy. The previous commitment to create a budget surplus by the end of Parliament has been aborted and there is a new pledge to invest more in infrastructure projects. The Chancellor will outline his proposals in more detail in his Autumn Statement, which will be made on 23 November 2016. The Statement will detail how much each government department has been allocated in the next three years, which may in turn give some indication of the impact on local government budgets.
- 7.2 Despite this new pragmatic approach, the Chancellor has reiterated the Government's commitment to reduce the deficit. The extent of the funding cuts can be seen in the four year settlement offer made to Derby, in which Revenue Support Grant (RSG) will be reduced from £34.6m in 2016/17 to £12.5m by 2019/20. The RSG projections will only be changed in 'exceptional circumstances' and we do not anticipate any update when the Local Government Finance Settlement is released in late December. However, there are a wide range of other grant forecasts that could be updated in December, and these assumptions will continue to be reviewed throughout the budget process.
- 7.3 The Government has announced plans to allow local authorities to retain 100% of business rates locally. As part of this process, the government will also transfer new functions to local government and review of how much funding each council requires. With the introduction of new services, a redistribution of funding between councils and an increased dependence on business rate income, there is greater uncertainty beyond 2019/2020.
- 7.4 In the shorter term, from 2017/18 onwards, the greatest funding uncertainty is around the New Homes Bonus, which was subject to a separate consultation this summer. The Government's preferred option is to significantly reduce the scheme and redirect funding to councils with social care responsibilities. The Council is in favour of this approach and responded positively to the consultation. This preferred model has built into forecasting, but the Government has not provided any response to the consultation and there is likely to be uncertainty until the figures are confirmed in December.

8. Local Context

- 8.1 The Council's MTFP is shaped by the national context but also by the need to respond to ever increasing service demands from the community at the local level.
- 8.2 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.

- 8.3 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, many of which fall into band A. Derby also charges the second lowest band D council tax in the East Midlands and are unable to increase rates up to even the average level due to the restrictions on rate increases. In contrast, the need to spend on services in Derby is relatively high.
- 8.4 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.
- 8.5 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 2016 Derby was ranked number 55 out of 365; showing that Derby is relatively more deprived than it was in 2010.

9. The Strategy

- 9.1 To deliver a balanced sustainable MTFP, realistic savings will be required to be identified and delivered. The savings identified in previous year approved budget must be achieved, as exceptions to this increase the funding gap and required further savings. A number of areas are being investigated including the Delivering Differently Programme to identify future savings.
- 9.2 The Delivering Differently programme will support services to develop and implement new and innovative service delivery models with the primary aim of delivering savings and creating a modern, flexible and resilient Council. Specific development areas are being investigated within the programme areas of Demand Management, Shared Services and the Digital Strategy.
- 9.3 Significant savings have been delivered from the Council's Treasury Management function and these will continue to be investigated to identify further prudent savings. The Council has substantial sums both borrowed and invested and therefore continually monitors the associated risks and opportunities. The review of Treasury Management will continue including debt profiling opportunities, arising from changes in market conditions, and the level of provision made to repay maturing debt.
- 9.4 The Council already 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.
- 9.5 Last year the Government introduced the option to charge an additional 2% levy on council tax by authorities with social care responsibilities. The Council applied the additional levy in 2016/17 and the draft MTFP includes further additional increases in

each year.

- 9.6 Despite the financial constraints experienced in recent years and the position forecast in the medium term Cabinet have identified two priority developments to be included in the MTFP.
- The development of a new swimming venue was deferred during the 2014/15 MTFP process and is now to be reintroduced.
 - To maintain the city's streets, parks and open spaces to acceptable standards and provide a safe and attractive environment for communities across the city.
- 9.7 The Council will investigate 'Crowd Funding' where appropriate to support delivery of community identified priorities and initiatives.
- 9.8 The financial landscape facing the Council continues to be challenging due to the forecast cuts in Government funding and increasing local demographic pressures. The Council will endeavour to close the current funding gap by delivering existing saving and continuing to identify new efficiencies. Where additional savings and reductions are required the Council will continue to look for ways to protect the statutory services it delivers to the most vulnerable members of the community.

10. The Draft MTFP – 2017/18 to 2019/20

- 10.1 The current 2016/17 – 2018/19 MTFP was approved by Council in February 2016. Since this position was published officers have been working to identify and realise additional savings, drive down pressures and maximise income to the Council. The position has been updated to reflect the latest intelligence on future Government funding, proposed developments and emerging pressures and savings.
- 10.2 The figures include within the draft MTFP are based on the Council's latest forecasts, estimates and assumptions, and are included for planning purposes only. Existing pressures have been revised and new pressures and savings included. These figures are expected to 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.
- 10.3 Table 1 shows the latest draft MTFP for 2017/18 to 2019/20.

Table 1 Draft MTFP

	Current	Draft MTFP		
	2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's
FUNDING				
Retained Business Rates	58,520	59,901	61,906	64,131
Revenue Support Grant	34,616	25,203	18,898	12,524
Council Tax	80,541	84,270	88,434	92,797
Estimated Collection Fund surplus (one-off)	1,021	804	0	0
Specific Grants	44,527	43,744	44,633	47,735
Total Resources Available	219,225	213,922	213,871	217,187
BUDGET				
Prior Year Base Budget	230,048	223,387	219,556	213,871
Inflation Estimates	2,950	2,577	2,577	2,577
Pressures approved in 2016/17 (revised)	9,398	3,791	3,414	0
New pressures	0	5,243	3,145	3,140
Savings as approved in Original MTFP	(19,009)	(10,562)	(15,252)	0
New Savings	0	(1,966)	500	0
Budget (prior to movement in reserves)	223,387	222,470	213,940	219,588
(Use of) / Contribution to reserves	(4,162)	(5,634)	0	0
Revised (savings) to find	0	(2,914)	(69)	(2,401)
Total Budget	219,225	213,922	213,871	217,187
<i>Total Savings Requirement:</i>	<i>(19,009)</i>	<i>(13,476)</i>	<i>(15,321)</i>	<i>(2,401)</i>

11. 2017/18 to 2019/20 Capital Strategy

- 11.1 The current capital programme for 2016/17 to 2018/19, as approved by Cabinet, is approximately £223m. A significant amount of the programme is ring-fenced or committed to schemes in progress, with other elements of the programme being more flexible.
- 11.2 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 2017/18 are not anticipated to be announced until January 2017, and indicative future year figures may not all be available. Financial modelling will need to take this uncertainty into account.
- 11.3 The current strategy assumes no further borrowing which will have a net impact on the revenue budget apart from the priority commitment to a new swimming pool.
- 11.4 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 have been 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
- Strategy to recycle receipts within the OCOR (Our City Our River) project as development works require the purchase and resale of land following development works.

11.5 The Cabinet has already identified that a Streetscene charter and new swimming venue are priorities. The impact of affordability across the whole MTFP will be considered when developing the detailed plans to deliver these priorities.

12. Risk Planning

12.1 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 offsetting variances within service budgets and as a last resort using reserves.

12.2 The Director of Finance 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 subsequent MTFPs.

Funding Risks

Specific Grants – Revenue Support Grant is provisionally confirmed until 2019/20, but uncertainty remains over other specific grants. In particular, the New Homes Bonus and the Improved Better Care Fund are both subject to an on-going consultation process.

Business Rates Revaluation – As the value of business rates retained is below the Governments assessment the Council receives a top up grant. The revaluation of Business rates and multiplier change will effect the total rates yield and therefore the

amount retained from 2017/18 onwards. This should be compensated for by a corresponding change in top up grant however only the early revaluation results are available and the effect on grant has not been confirmed.

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 backdated appeals and statutory regulations for timing of recognising variations in business rates allow the Council to build these into their future MTFP.

Needs Review – The Government is reviewing each councils need to spend on services, with a view to redistributing funding between councils ‘by the end of this parliament’. 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. This creates greater forecasting uncertainty towards the end of the MTFS period. The Council is militating against losses by lobbying Government on key issues.

Prior Year Risks

2016/17 Monitoring - the budget for 2016/17 requires £19m of permanent budget savings to be delivered. The risk of not delivering these savings is being closely monitored and reported to Cabinet.

Cost Change Risks

General Inflation – 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 and how any such risks could be addressed within existing budgets.

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, and even negative, in several of the preceding years. 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 annually. Any changes in legislative requirements or repayment terms to address the pension deficit could affect the MTFP. The 2017/18 MTFP will also include the impact of the Pension Fund triennial valuation being undertaken this year.

Living Wage – Pressures have been built into the MTFP to fund the impact of the Living Wage (as set by the Joseph Rowntree Foundation) however further savings will be required to meet the impact above the National Living Wage.

National Living Wage – The National Living Wage is set by the Government but only the initial and future target rate for 2020 were announced. In year incremental rate increases are yet to be confirmed. As the Living Wage adopted by the Council is in excess of the National Living Wage this removes the planning uncertainty.

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 will be closely monitored and refreshed accordingly.

Increments – The cost of increments have to be contained within existing staffing budgets. The management of this cost will be more demanding in some service areas following the implementation of job evaluation.

Capital Programme and other risks

Capital Programme – The Capital Strategy for 2017/18 to 2019/20 has a direct impact on the Treasury Management revenue budget. There is no additional borrowing funded in the current MTFP. Additional capital spend is therefore likely to create a new revenue pressure, unless external funding or contributions are secured. Public commitments have been made to the delivery of major schemes, including a new 50m pool with associated borrowing costs and the revenue impact built into the draft MTFP position for 2017-20.

One off Costs - there are likely to be one-off costs to support pay costs, such as the funding of voluntary and compulsory redundancies costs over the MTFP period. The level of these will be determined as saving options are developed.

13. Consultation and budget planning timetable

- 13.1 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 any budget gap.
- 13.2 The budget proposals will be considered by the Scrutiny Boards before Council Cabinet recommends the budget and Council Tax to Council.
- 13.3 The budget proposals will be communicated for consultation to the public via the website as well as to other Council committees, partners and the business community before the final recommendations to Council Cabinet.
- 13.4 An outline timetable is proposed in Table 2, including steps already completed.

Table 2 – Outline MTFS Timetable

Key dates	Meeting	Key Issues
2016		
April to October		<ul style="list-style-type: none"> • MTFP updated • Financing impact reviewed • Savings proposals considered
9 November	Cabinet	<ul style="list-style-type: none"> • MTFS agreed
November		<ul style="list-style-type: none"> • Continued consideration of savings proposals
6 December		<ul style="list-style-type: none"> • Public Consultation starts
December	Scrutiny	<ul style="list-style-type: none"> • Scrutiny of detailed budget proposals
December – January	Various public and statutory partners	<ul style="list-style-type: none"> • Detailed budget consultation
2017		
3 January		<ul style="list-style-type: none"> • Public Consultation ends

18 January	Cabinet	• Council Tax Base approved
8 February	Cabinet	• Cabinet approval of budget package & Council Tax
March	Council	• Full Council approval of budget and Council Tax setting

OTHER OPTIONS CONSIDERED

14.1 There is a statutory requirement to set a balanced budget for 2017/18. A range of options to achieve this will be considered during the budget planning process.

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Estates/Property officer Service Director(s) Other(s)	Toni Nash
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IMPLICATIONS

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 2017/18 by March 2017. 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.