

**Agenda Item No 5(f)**

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**24 January 2017**

**Report of the Director of Finance**

**FIVE YEAR FINANCIAL PLAN**

**(STRATEGIC POLICY, ECONOMIC DEVELOPMENT AND BUDGET)**

**1 Purpose of the Report**

To recommend that Council approves the Five Year Financial Plan (FYFP) for the period 2017-18 to 2021-22.

To recommend that Council notes details of budget reductions that may need to be considered to help balance the budget over the medium term.

**2 Information and Analysis**

The FYFP is updated on an annual basis, this report covers the period 2017-18 to 2021-22. The Plan has been revised, where possible, to reflect the latest funding announcements contained within the Provisional Local Government Finance Settlement 2017-18. It includes updated assumptions on pay and price increases, service pressures and receipts from Government Grants and Council Tax. The updated Plan identifies the possible level of cuts that are likely to be needed through to 2021-22.

The Plan supports corporate planning and shapes the Council's Financial Strategy and annual budgets by establishing the resources that are likely to be available for allocation to meet service priorities contained within the Council Plan.

Service pressures, such as demographic growth, contribute to year on year change in demand which are significantly in excess of funding streams available. In particular, since 2010, Government grants have been cut significantly. The Council adopts a proactive approach in response to these funding cuts by identifying future pressures and associated risks, developing and implementing plans to address them. This includes the development of a programme of budget cuts over the medium term in order to achieve a balanced budget.

Successive Financial Plans have identified the need to make significant budget reductions. By 2022 it is estimated that the Council will have reduced its budget by £290m since 2010.

The proposed Plan identifies a further set of budget reductions which are set out in Appendix Two. The total of the cuts, together with the cuts identified in the 2017-18 Revenue Budget report, is in excess of £50m and is therefore a significant contribution towards the total reductions of £80m required over the period of the Plan.

The level of budget reductions required over the next five year period remains significant. The achievement of a balanced budget is significantly dependent on the Council meeting its budget reduction target over the medium term subject to any smoothing out of annual targets by use of one-off resources. Whilst General Reserves over the period of the Plan remain at prudent risk assessed levels, any overspends arising from demand management issues or slippage on the achievement of budget reductions, will require a call on the General Reserve or on earmarked reserves held for the purpose of managing departmental budget shortfalls.

The Plan shows that cuts of at least £80m are required over the five year period up to 2021-22.

The updated FYFP is shown at Appendix One together with the assumptions used in developing the Plan.

## **Uncertainty and Risk**

There are a number of items which Members need to have regard to when making decisions on the budget, it is prudent that Members understand these pressures and at the same time recognise how the Council's financial position needs to retain a degree of flexibility in order to meet these challenges and any others that might arise in year.

- **Business Rates Retention Scheme**

Details of changes to the scheme are currently being consulted on, therefore it is difficult to estimate the Council's main funding stream beyond the four-year offer made by the Government. Members need to be aware that the Government has indicated that local authorities will be given additional responsibilities as the amount collected in business rates outweighs the current funding quantum allocated to local authorities.

The introduction of the current localised Business Rates Retention Scheme in April 2013 has increased the level of financial risk for local authorities as they are now exposed to both the impact of appeals against rate valuations and avoidance of the tax. Whilst some appeals will go in the favour of local authorities, the uncertainty of the outcome and lack of knowledge about the

timing of the decision mean that councils are forced to accept a significant, unpredictable financial risk, impacting on the availability of funding for services.

A further, potentially more significant, risk relates to the impact on business rates from an economic downturn. At present Government can act as a buffer to remove any sudden shocks to local authority funding.

- **Adult Care Demographics/Better Care Fund**

The Council has identified that there are significant additional costs of between £12m-£14m per annum due to increasing demographic pressures. The Plan assumes that additional funding from the Improved Better Care Fund of £1.9m in 2017-18; £14.6m in 2018-19; and £25.9m in 2019-20 will support the funding of this expenditure in the aforementioned years. However, details regarding the use of the additional funding and any associated conditions are still awaited.

- **Academisation**

The Comprehensive Spending Review made a commitment to convert all secondary schools to academies. If all the secondary schools within the county were to convert, this would have a significant impact on the Council's finances particularly the potential for loss of traded income.

- **Living Wage**

An estimate of the potential costs to the Council of the Government's decision to implement the National Living Wage has been made. These are the estimated costs to the Council as a result of providers increasing their charges to mitigate the financial strain of implementing the Living Wage. There is also likely to be a longer term impact on employee pay as differentials are squeezed. The Government has stated that it expects the National Living Wage to reach £9 an hour by 2020, therefore it has been assumed that any costs associated with the increase will be up to the period 2019-20.

- **Public Health Funding**

The Council currently receives Public Health funding in the form of a ring-fenced grant. The Government will consult on options to fully fund local authorities' public health spending from their retained business rates receipts as part of the move towards 100% business rates retention. This will remove the ringfence and is expected to occur in 2018-19. Meanwhile the Government will be cutting overall allocations by 6.2% nationally with further changes possible from the adoption of a revised funding split.

- **Price Inflation**

The Plan assumes that inflation will remain low over the medium term and therefore departments will be able to manage price inflation within existing budgets, with the main exception of residential care home fees.

## **Summary**

The Plan shows that savings of £80m are required up to and including the year 2021-22. However, this is reliant on the additional Better Care Fund allocations being available to support Adult Care spend. If the Government were to place conditions on the additional funding such that the Council could not use the BCF to support social care pressures, then a further £25m over the period of the plan would need to be cut in order to set a balanced budget.

The Council will monitor the Government's proposals with regard to changes to the Business Rates Retention Scheme. Until the Government provides details of the proposals to local authorities, it is difficult to estimate both the level of business rates income and financial impact of any additional burdens, particularly public health, over the medium term.

Members should note that whilst the Plan shows estimated budget reductions of £80m, this figure may rise to as high as £105m.

Appendix Two highlights savings proposals for the period up to 2021-22. However the savings identified in Appendix Two do not meet the total savings required over that period, therefore further reports will need to be brought to Cabinet over the coming months identifying further areas for savings to be made.

## **3 Financial Considerations**

As set out above.

## **4 Legal Considerations**

The Council's Financial Regulations provide that the Five Year Financial Plan must be proposed by Cabinet and approved by the Full Council.

## **5 Other Considerations**

In preparing this report the relevance of the following factors has been considered:- Human Rights, equality of opportunity, health, environmental, transport, property, social value and crime and disorder considerations.

**6 Background Papers**

Provisional Local Government Finance Settlement 2017-18.

Papers held in Technical Section, Corporate Finance, Room 137

**7 Key Decision?**

No

**8 Is it necessary to waive the call-in period?**

No

**9 Officer's Recommendation**

That Cabinet recommends to Council that it:

- i. Approves the Five Year Financial Plan;
- ii. Notes the uncertainty and risks set out in the report;
- iii. Notes the possible budget reduction proposals set out in Appendix Two.

PETER HANDFORD

Director of Finance

## FIVE YEAR FINANCIAL PLAN for 2017-18 to 2021-22

	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m
<b>FUNDING</b>					
<b>Business Rates and Government Grants</b>					
Business Rates	16.806	17.343	17.966	18.325	18.692
Top-Up	88.604	91.454	94.707	97.548	100.475
Revenue Support Grant	44.056	28.633	13.517	0.000	0.000
Better Care Fund	1.945	14.600	25.900	25.900	25.900
New Homes Bonus	2.495	1.907	1.830	1.800	1.800
General Grant	8.865	2.000	2.000	2.000	2.000
PFI Grant	10.504	10.504	10.504	10.504	10.504
<b>Sub Total</b>	<b>173.275</b>	<b>166.441</b>	<b>166.424</b>	<b>156.078</b>	<b>159.370</b>
Council Tax	295.049	309.547	326.644	338.088	349.936
Use of Balances	18.802	2.000	2.000	2.000	3.000
<b>TOTAL FUNDING</b>	<b>487.126</b>	<b>477.988</b>	<b>495.068</b>	<b>496.166</b>	<b>512.306</b>
<b>EXPENDITURE:</b>					
Base Budget	475.979	468.323	475.988	493.068	494.166
Price Inflation	2.157	2.000	2.000	2.000	2.000
Living Wage	6.155	7.000	7.000	0.000	0.000
Pay Award (including Living Wage)	3.063	2.500	2.500	2.500	2.500
Contingency for Price Increases	0.000	1.000	1.000	1.000	1.000
Debt Charges	-1.250	0.000	0.000	0.000	0.000
Apprenticeship Levy	1.000	0.000	0.000	0.000	0.000
Interest Receipts	0.000	-1.000	-1.000	0.000	0.000
On-going Service Pressures (see below)	17.184	14.733	13.000	13.000	13.000
Risk Management Budget	-1.890	-1.000	0.000	0.000	0.000
	<b>502.398</b>	<b>493.556</b>	<b>500.488</b>	<b>511.568</b>	<b>512.666</b>
<b>One-off expenditure:</b>					
One-off revenue support	6.989	2.000	2.000	2.000	2.000
Cuts shortfall	10.814	0.000	0.000	0.000	0.000
Elections	1.000	0.000	0.000	0.000	1.000
	<b>18.803</b>	<b>2.000</b>	<b>2.000</b>	<b>2.000</b>	<b>3.000</b>
<b>Budget cuts required</b>	<b>-34.075</b>	<b>-17.568</b>	<b>-7.421</b>	<b>-17.402</b>	<b>-3.360</b>
<b>TOTAL EXPENDITURE</b>	<b>487.126</b>	<b>477.988</b>	<b>495.068</b>	<b>496.166</b>	<b>512.306</b>
<b>Ongoing base budget</b>	<b>468.323</b>	<b>475.988</b>	<b>493.068</b>	<b>494.166</b>	<b>509.306</b>
<b>TOTAL SAVINGS APRIL 2017- MARCH 2022</b>					<b>-79.825</b>
<b>Annual Savings as a percentage of Base Budget</b>	<b>7.16%</b>	<b>3.75%</b>	<b>1.56%</b>	<b>3.53%</b>	<b>0.68%</b>

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**Appendix One**

<b>Assumptions</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>
Price Inflation	0.00%	1.80%	2.00%	2.00%	2.00%
Pay Award	1.00%	1.00%	1.00%	1.00%	1.00%
Business Rate Growth	-0.23%	3.20%	3.59%	2.00%	2.00%
Top Up RPI	2.48%	3.22%	3.56%	3.00%	3.00%
Revenue Support Grant Reductions	-34.95%	-35.01%	-52.79%	-100.00%	0.00%
Council Tax Increase	3.99%	3.99%	3.99%	1.99%	1.99%
Taxbase Increase	1.43%	1.50%	1.50%	1.50%	1.50%
Taxbase	240,868	244,481	248,148	251,870	255,649
Collection Fund Position (£m)	3.199	1.500	1.500	1.500	1.500
Council Tax (£/Band D)	1,211.66	1,260.01	1,310.28	1,336.35	1,362.95
<b>Ongoing Service Pressures</b>					
Adult Care Demographics	11.000	11.000	12.000	12.000	12.000
Safeguarding	0.974	1.000	1.000	1.000	1.000
Unaccompanied Asylum Seeking Children	1.494	0.000	0.000	0.000	0.000
Legal Services	0.400	0.000	0.000	0.000	0.000
Waste	3.000	2.476	0.000	0.000	0.000
Flood Risk Management	0.059	0.000	0.000	0.000	0.000
Innovation	0.257	0.257	0.000	0.000	0.000
	<b>17.184</b>	<b>14.733</b>	<b>13.000</b>	<b>13.000</b>	<b>13.000</b>
<b>One-Off Pressures</b>					
High Needs Strategic Planning	0.305	0.000	0.000	0.000	0.000
SEND Implementation	0.514	0.000	0.000	0.000	0.000
Early Help	1.200	0.000	0.000	0.000	0.000
SEN Home to School Transport	1.290	0.000	0.000	0.000	0.000
Secondary School Budget	0.150	0.000	0.000	0.000	0.000
Loss of Inclusion	0.475	0.000	0.000	0.000	0.000
Fracking	0.119	0.000	0.000	0.000	0.000
Gold Card	0.160	0.000	0.000	0.000	0.000
Waste	2.476	0.000	0.000	0.000	0.000
General Budget Support	0.000	2.000	2.000	2.000	2.000
Transformation Services	0.300	0.000	0.000	0.000	0.000
	<b>6.989</b>	<b>2.000</b>	<b>2.000</b>	<b>2.000</b>	<b>2.000</b>

Assumptions used in developing the Plan are set out below.

### **Business Rates**

This is the Council's share of Business Rates income under the Business Rates Retention Scheme. The Government has assumed that business rates will continue to grow in line with inflation.

### **Top-Up**

This is a grant received from Government under the Business Rates Retention Scheme. It assumed that the amount will increase with inflation year-on-year.

### **Revenue Support Grant**

The Government is reducing the amount of grant by 80% over the four-year period to 2019-20. The Government is currently consulting on a revised Business Rates Retention Scheme, which will result in the cessation of Revenue Support, therefore a nil allocation has been assumed from 2020-21 onwards.

### **Improved Better Care Fund**

The Spending Review 2015 announced the introduction of the improved Better Care Fund worth £105m in 2017-18, £800m in 2018-19 and £1.5bn in 2019-20 nationally.

### **New Homes Bonus**

The allocations are based on the Government's indicative allocations under the revised scheme announced alongside the Provisional Finance Settlement 2017-18.

### **General Grant**

In 2017-18, the amount of General Grant is based on the following:

- Education Services Grant - £2.308m
- Transition Grant - £1.124m
- Local Reform and Community Voices Grant - £0.400m
- Prison Services - £0.080m
- New Bonus returned top-slice £0.257m
- Lead Local Flood Authority - £0.051m
- High Needs Strategic Planning £0.305m
- Special Education Needs and Disability - £0.513m
- Adult Social Care Support Grant £3.644m
- Better Care Fund - £1.945m
- Business Rates Retention - £1.000m



From 2018-19 onwards, there is a general assumption that grants totaling £2.000m per annum will be received.

### **PFI Grant**

This grant is to support expenditure which is incurred in meeting payments to contractors for the capital element of projects undertaken through the Private Finance Initiative.

### **Council Tax**

An increase of 3.99% is assumed for the period 2017-18 to 2019-20, which includes the 2% adult social care precept. The Government has not indicated whether the adult social care precept will be available beyond 2019-20, therefore a general 1.99% increase has been assumed from 2020-21.

A taxbase increase of 1.5% per annum has been assumed each year from 2018-19 onwards. This is consistent with the increases in taxbase seen in recent years.

A collection fund surplus of £1.500m is assumed each year from 2018-19 onwards.

### **Use of Balances**

In 2017-18 there are planned use of balances to support one-off pressures, the details of which are set out below.

<b>One-Off Pressures</b>	<b>2017-18 £m</b>
High Needs Strategic Planning	0.305
SEND Implementation	0.514
Early Help	1.200
SEN Home to School Transport	1.290
Secondary School Budget	0.150
Loss of inclusion	0.475
Fracking	0.119
Gold Card	0.160
Waste	2.476
Transformation Services	0.300
	<b>6.989</b>

From 2018-19 onwards, there is a planned use of General Reserve of £2m each year for general support. There will also be an additional call on the General Reserve of £1.000m in 2017-18 and 2021-22 to cover the costs of the county council elections.

## **Expenditure**

### **Price Inflation**

With inflation expected to remain low over the medium term utility and commodity costs are not expected to rise significantly.

### **Living Wage**

The new national Living Wage for workers over the age of 25 will start at £7.20 from April 2016 and rise to £9 an hour by 2020. The £7.000m from 2017-18 onwards represent the estimated increase in contract costs of services, as providers pass on the cost of paying the National Living Wage to its employees.

### **Pay Award**

In December 2015, a local government pay offer was announced of a 1% increase in both 2016-17 and 2017-18 in addition to increasing the bottom pay point to take account of the new National Living Wage. From 2018-19 onwards an increase of 1% per annum has been assumed.

### **Contingency for Price Increases**

An amount of £1.000m has been set aside each year from 2018-19 onwards to accommodate non-standard inflation such as high energy prices.

### **Debt Charges**

This represents the interest payable on the Council's outstanding debt. The Council has reviewed its Minimum Revenue Provision which will release £1.250m of budget reductions in 2017-18.

### **Apprenticeship Levy**

The Government announced in the July 2015 Budget that large employers will pay a levy, from April 2017, which will be set at a rate of 0.5% of an employer's payroll. The estimated cost to the Council will be approximately £1.000m.

### **Interest Receipts**

The Bank of England announced a base rate cut of 0.25% in August 2016. This is expected to reduce the Council's interest rate income by £0.500m in 2017-18. The plan assumes moderate increases each year from 2018-19 onwards which will generate additional income of £1.000m per annum up to 2019-20.

### **On-going Service Pressures**

Demographic growth in respect of Adult Care is assumed from 2017-18 onwards. It is assumed that the additional Better Care Fund allocations will support the expenditure.

Over the medium term there are further pressures for safeguarding and waste. The Council's waste treatment facility will go live in 2017 and this will help to off-set the costs of Landfill Tax.

### **One-Off Pressures**

See funding section above for further details.

## **Adult Care**

**2019-20**

### **Electronic Home Care Recording - £700,000**

We commission home care from agencies and use an electronic time recording system which logs time spent with clients. We are currently looking at replacing this system with a more efficient, fully computerised system which will more accurately record this time. The result will be that we will pay for the amount of time spent with a client, rather than blocks of time, resulting in a saving. The new system would also alert us quickly to a missed call.

**By 2020**

### **Consolidate Block Contracts - £1,200,000**

Reviews are continuing with providers of services to ensure the Council is only paying for services that are being delivered and ensuring all services are delivered as efficiently as possible. This is resulting in reduced payments for some services. This cut was agreed in 2014-15. (No additional consultation or Cabinet approval anticipated).

### **Staffing reductions - £2,703,000**

A number of restructures and reductions on staff numbers at all levels to reflect the reductions in frontline services are proposed up to 2020, with some already at the implementation stage. These changes would be in line with corporate policies and consultation.

### **Increased Use of Assistive Technology - £2,150,000**

A range of equipment is available for people who need extra support to live at home, for example alarms and pressure pads, called Assistive Technology. We will be reviewing the range of equipment and how it is provided to increase the independence of clients and help to support them at home, which may result in them needing fewer services and therefore budget savings.

## **Chief Executive's Office**

**2019-20**

### **Staffing - £706,000**

We will employ less people in Communications, Call Derbyshire, Policy and Research and secretarial teams. This will be achieved by reorganising all our services.

## **2020-21**

### **Staffing - £215,000**

We will employ less people in Communications, Call Derbyshire, Policy and Research and secretarial teams. This will be achieved by reorganising all our services.

## **Children's Services**

## **2018-19**

### **Additional funding from grants – £417,000**

Full year effect of the £50m national school improvement funding introduced from September 2017.

### **Back office costs – £975,000**

Reducing general business support and specialised back office functions in line with reductions in the Council's front line services.

### **Outdoor education – £370,000**

Removal of the residual subsidy of the Council's Outdoor Education Service.

### **Safeguarding – £625,000**

Reductions in the number and costs of looked after children.

### **SEN and Disability - £100,000**

Savings in the support costs to vulnerable children and families.

### **Joint use – £11,000**

Full year effect of the reduction in the financial support to South Derbyshire District Council for 'joint use' provision which contributes to increasing participation in sport for young people.

### **Supporting Families – £75,000**

Full year effect of reductions in the management costs of the service's work with vulnerable families and teenagers.

### **Home to School Transport - £250,000**

Reduction in the Council's transport subsidy for pupils with special educational needs and in post-16 education (subject to further consultation).

## **2019-20**

### **Safeguarding – £625,000**

Reductions in the number and costs of looked after children.

**Home to School Transport - £500,000**

Further reduction in the Council's transport subsidy for pupils with special educational needs and in post-16 education.

**Back office costs – £300,000**

Reducing general business support and specialised back office functions in line with reductions in the Council's front line services.

**SEN and Disability - £50,000**

Savings in the support costs to vulnerable children and families.

**Corporate Resources**

**2018-19**

**Administration and employee savings - £533,000**

We will save this money by employing fewer people in HR, Finance, Transformation, Property and Legal Services. This will mainly be achieved by not replacing people who leave, but we will need to carry out restructuring to make the most of our reducing resources.

**IT budget - £200,000**

We will reduce the amount we spend on new IT projects and systems and will spend less on maintaining our current IT systems. We will also reduce the amount we spend on IT services available to support the front line.

**Insurance reductions £105,000**

This money will be saved by accepting a higher level of insurance risk which will lower our insurance premiums.

**Reduction in property running costs and maintenance £490,000**

This will lead to a move to reactive rather than planned maintenance and an overall deterioration in the condition of Council buildings, such as offices, libraries, homes for older people and children's centres.

**2019-20**

**Administration and employee savings - £984,000**

We will save this money by employing fewer people in HR, Finance, Transformation, Property and Legal Services. This will mainly be achieved by not replacing people who leave, but we will need to carry out restructuring to make the most of our reducing resources.

**IT budget - £235,000**

We will reduce the amount we spend on new IT projects and systems and will spend less on maintaining our current IT systems. We will also reduce the amount we spend on IT services available to support the front line.

**Reduction in property running costs and maintenance £250,000**

This will lead to a move to reactive rather than planned maintenance and an overall deterioration in the condition of Council buildings, such as offices, libraries, homes for older people and children's centres.

**Economy, Transport and Communities**

**2018-19**

**Local bus services - £450,000**

This budget will reduce by a further £450,000.

**School crossing patrols - £300,000**

The School Crossing Patrol Service will be reviewed. We will work with schools and communities to look for alternative sources of funding.

**Street lighting - £700,000**

We will save £590,000 by converting street lights with LED fittings which will save energy and maintenance costs. We will also save £110,000 on street lighting on unadopted roads.

**World Heritage Site - £60,000**

We will reduce the costs of managing the Derwent Valley Mills World Heritage Site.

**Winter Maintenance - £500,000**

We will reduce the costs of the service through reducing the cost of vehicles and other overheads. We may have to review existing gritting routes.

**Gold Card - £250,000**

The cost of providing subsidised fares for older people and people with disabilities will reduce due to demand being lower than in previous years.

**Highway Agency Agreements - £150,000**

We will look at reducing the cost of highway maintenance work carried out on our behalf by other organisations.

**Parking management - £115,000**

We will save money by managing our civil parking enforcement, residents' parking and on street parking services in different ways.

**Road Safety - £400,000**

Funding for road safety activity will be reduced but we will continue to work with partners to improve road safety.

**Environmental studies and forest schools - £120,000**

These services will become self-funding through increased income streams and reduced overheads.

**Historic Buildings Grants - £40,000**

Grants to preserve historic buildings will reduce.

**Markham Vale - £325,000**

Funding commitments from the Council will continue to reduce as the project nears completion.

**Waste - £125,000**

We will increase income from charging people to leave construction waste at our household waste recycling centres.

**Staffing - £163,000**

Further reductions to staffing budgets in emergency planning, community safety, trading standards and back office services.

**Community Safety - £22,000**

Reduction in funding for projects.

**Review of Libraries and Heritage Services - £320,000**

Further reductions to staffing budgets, opening hours and the funds available to purchase new books and other items.

**2019-20**

**Street Lighting - £140,000**

We will save £140,000 by converting more street lights on main roads to LED fittings.

**Countryside Service - £500,000**

We are looking for alternative sources of funding and generating income through commercial activity to help continue running this valued public service.

**Waste - £3,400,000**

This figure represents a small percentage of the overall cost of disposing of waste. It will be found through a number of changes to the way services are provided, including refinancing the way we pay for waste facilities.

**Staffing - £174,000**

Further reductions to staffing budgets in emergency planning, community safety, trading standards and back office services.



**Review of Libraries and Heritage Services - £300,000**

Further reductions to staffing budgets, opening hours and the funds available to purchase new books and other items.

**2020-21**

**Highway - £1,000,000**

A further reduction to the highway budget through reducing overheads.

**Staffing - £2,097,000**

The number of staff in the department will be reduced by not replacing people when they leave, staff reorganisations and maximising income to pay for staff costs.

**Review of Libraries and Heritage Services - £398,000**

Further reductions to staffing budgets, opening hours and the funds available to purchase new books and other items.