

DERBYSHIRE COUNTY COUNCIL

CABINET

24 July 2012

Report of the Director of Finance

**FIVE YEAR FINANCIAL PLAN AND FINANCIAL STRATEGY
(FINANCE AND MANAGEMENT)**

1 Purpose of the Report

To note the details of the Five Year Financial Plan for the period 2012/13 to 2016/17. This has been updated to reflect details of the Local Government Finance Settlement announced in December 2011, the Chancellor's Autumn Statement and Budget 2012, together with the proposals for the Government's Local Government Resource Review.

To note the review of the Council's Financial Strategy.

2 Information and Analysis

Five Year Financial Plan

The Plan sets out the Council's strategy for a five year time horizon and establishes the financial framework within which service planning will take place.

It is an integral part of the service planning process of the Council and also forms a key part of the process leading to the formulation of the annual budget.

The Government's Autumn Statement announced in October 2011 published details which confirmed further reductions in public sector spending beyond the four year Comprehensive Spending Review period.

In March 2011, the Government announced details of its Local Government Resources Review which includes proposals for Business Rates Retention for local authorities.

The Plan has been revised to reflect the above information, together with assumptions made on pay and price increases, levels of budget reductions, known service pressures and income from fees and

charges. The key assumptions and the Plan are shown in the Appendix.

The level of savings has increased since that published in the Revenue Budget Report in February 2012, as it now shows the estimated financial impact of Council Tax Benefit Localisation, Pensions Auto-enrolment and the academy conversion.

Financial Strategy

In September 2005, Cabinet approved a Financial Strategy for the Council which is updated periodically. The purpose of the Financial Strategy is to set out the financial framework for the Council. This supports its strategic and policy objectives as outlined in the Council Plan.

The key components of the strategy are to:

- set out the framework for the financial operation of the Council which supports the strategic and policy objectives in the Council Plan.
- ensure resources are allocated to achieve Council Plan objectives.
- ensure cost effective, affordable service delivery that delivers value for money.
- maximise resources available to the Council.
- ensure Council Tax levels are kept within reasonable levels.
- integrate service plans into the budget process.

The Council's Financial Regulations state that the strategy should be reviewed annually to remain consistent with the Council Plan, to ensure that the Financial Strategy drives the Five Year Financial Plan, Capital Programme and annual Revenue Budget.

The strategy has been reviewed and there are no changes from the previously published strategy.

Copies of the strategy can be found on DNet. A paper copy will be available at the meeting.

3 Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

4 Key Decision

Yes

5 Call-in

Is it required that call-in be waived in respect of the decisions proposed in the report? No

6 Background Papers

Final Local Government Finance Settlement 2012/13
Budget 2012 – HM Treasury
Autumn Statement – HM Treasury
Local Government Resources Review – Department for Communities and Local Government
Papers held in Technical Section, Corporate Finance

7 OFFICER'S RECOMMENDATIONS

That Cabinet approves:-

- i) the Five Year Financial Plan for the period 2012/13 to 2016/17 which reflects the details of the Local Government Finance Settlement, Autumn Statement 2011, Budget 2012 and the Local Government Resources Review and
- ii) the Financial Strategy.

PETER HANDFORD

Director of Finance

County Hall
MATLOCK

3 July 2012

Description	Notes
Academy Conversion	To reflect the number of schools converting to academies, the Government in the short term is making adjustments to Formula Grant. To date, Formula Grant has been adjusted by £3.6m. If all secondary schools within the county were to convert to academies, the total reduction in Formula Grant would be in the region of £10m.
Price Inflation	A general increase of 2% has been assumed and the price increase reflects that calculated for the 2012/13 budget. A 1% increase in prices equates to an additional cost of £3.5m. The same inflationary increase of 2% is assumed for fees and charges in each year. The figures shown are net of income from fees and charges.
Pay Award	<p>The Government's Autumn Statement 2011 announced a 1% cap on public sector pay, following the current two-year pay freeze. Therefore the Plan allows for potential increases of 1% in 2013/14 and 2014/15. A 2% increase has been assumed thereafter.</p> <p>A 1% increase in pay equates to £2.250m.</p> <p>(The actual increases will be dependent upon the outcome of local government pay negotiations.)</p>
Pension Fund	Employer contributions increase of £0.250m in 2013/14, based on the outcome of the actuarial review in 2011.
Contingency for Price Increases	An amount has been set aside to accommodate non-standard inflation such as high energy prices. £1m has been assumed in each year commencing 2013/14.
Debt Charges	The Council's capital expenditure is partly funded from additional borrowing while 4% of the outstanding balance is repaid each year.
Interest Receipts	<p>Assumed base rate increase of 0.5% in 2013/14 and a further increase of 0.5% in the base rate in 2014/15.</p> <p>A 1% base rate change equates to £2m.</p>

Pensions – Auto Enrolment	There will be a legal obligation for employers to enrol all their staff in a suitable pension scheme. This means that after the 1 February 2013, any new employees will be automatically enrolled into the LGPS. Initial estimation is that this will cost the Council around £3m in additional employer pension contributions. It is assumed that some employees will opt out of the scheme, as they are entitled to do so after a month's employment. In such cases the Council will receive a refund on the contribution made.
On-going Service Pressures	Demographic growth in respect of Adult Care and Looked After Children has been assumed in each financial year commencing 2012/13. The estimated impact of incremental costs of waste services including landfill tax.
One-off Service Pressure	One-off pressures agreed in the Revenue Budget Report 2012/13. County Council elections in 2013/14.
Contingency for Job Evaluation	Reflects one-off funding of Job Evaluation as agreed by Cabinet in November 2009.
Formula Grant/Business Rates	The Formula Grant reductions are based on the reductions set out in the CSR10 document, as well as the Government's announcements in Budget 2012, which confirm further reductions in public sector spending beyond the CSR period. From 2012/13 the Council will receive a grant to reflect the changes to the reforms of Council Tax Benefit, which results in a lower council taxbase for the Council. Further analysis of the Business Rates Retention Scheme will be undertaken following the Government consultation in July 2012.
Council Tax	A 2.5% increase is assumed from 2013/14 onwards. A 1% increase in Council Tax equates to approximately £2.5m.
Council Tax Freeze Grant	In October 2011, the Government announced details of funding to help councils freeze their council tax equivalent to a 2.5% increase in 2012/13. Unlike the 2011/12 freeze grant, the funding for 2012/13 is one-off in nature.

New Homes Bonus	This is a financial incentive to local authorities to encourage housing growth. The scheme will pay bonus in the ratio 80% to lower tier authorities and 20% to upper tier authorities.
Local Services Support Grant	This is a payment mechanism for the relatively few un-ringfenced funding streams not funded through Formula Grant. The assumption is that this funding will cease beyond 2012/13.
General Government Grant	<p>This is made up of two elements – Early Intervention Grant and Learning Disability Health Reform Grant. It is assumed that there will be no increases beyond 2012/13.</p> <p>The Government has indicated that these grants will be rolled into the Business Rates Retention Scheme from 2013/14 onwards. (see Formula Grant/Business Rates above).</p>
Council Tax Base	<p>The percentage increases are based on historical data. An adjustment has been made in 2013/14 to reflect the impact of Council Tax Benefit Localisation.</p> <p>The Council will receive a grant of approximately £35.3m, which is offset by a reduction in the taxbase resulting in a cost to the Council of £4m.</p>
Collection Fund	Collection Fund deficit of £4m is assumed in 2013/14 to take account of the impact of Council Tax Benefit Localisation. From 2014/15 onwards £0.600m per annum is assumed. This is based on historical data.

From the 1 April 2013, the Council will assume responsibility for local public health expenditure. The Council will received a ring-fenced grant which will meet the full costs of the transfer, therefore the financial impact will be nil.

FIVE YEAR FINANCIAL PLAN for 2012-13 to 2016-17

	2012-13 £m	2013-14 £m	2014-15 £m	2015-16 £m	2016-17 £m
Base Budget	536.601	525.431	519.592	515.803	508.324
Academy Conversion	(1.633)	(2.000)	(2.000)	(2.000)	0.000
	534.968	523.431	517.592	513.803	508.324
Price Inflation	6.914	7.000	7.000	7.000	7.000
Pay Award	0.000	2.250	2.250	4.500	4.500
Pension Fund Increase	0.000	0.250	0.000	0.000	0.000
Contingency for Price Increases	0.160	1.000	1.000	1.000	1.000
Debt Charges	0.435	1.100	0.600	0.600	0.600
Interest Receipts	0.000	(1.000)	(1.000)	0.000	0.000
Pensions - Auto-enrolment	0.000	3.000	(1.500)	0.000	0.000
	7.509	13.600	8.350	13.100	13.100
Ongoing Service Pressures (see below)	10.817	7.400	7.400	7.400	7.400
	10.817	7.400	7.400	7.400	7.400
Risk Management Budget	(2.863)	0.000	0.000	0.000	0.000
	550.431	544.431	533.342	534.303	528.824
Budget reductions required	(25.000)	(24.839)	(17.539)	(25.979)	(26.265)
Ongoing base budget	525.431	519.592	515.803	508.324	502.560
One-off expenditure:					
Contingency for Job Evaluation	0.317	0.000	0.000	0.000	0.000
One-off budget pressures	10.883	0.000	0.000	0.000	0.000
One-off budget support	1.459	2.000	2.000	2.000	2.000
Elections	0.000	0.800	0.000	0.000	0.000
Net Budget Requirement	538.090	522.392	517.803	510.324	504.560
Financed By: -					
Formula Grant/Business Rates	196.621	226.419	214.259	198.153	183.496
Council Tax	280.383	248.338	256.309	264.536	273.029
Council Tax Freeze Grant - one-off 2012/13	7.004	0.000	0.000	0.000	0.000
New Homes Bonus	0.840	1.170	1.570	1.970	2.370
Local Services Support Grant	2.288	0.000	0.000	0.000	0.000
General Government Grant	43.665	43.665	43.665	43.665	43.665
Use of General Reserve to support one-off expenditure	5.656	2.800	2.000	2.000	2.000
LACSEG refund	1.633	0.000	0.000	0.000	0.000
Total Funding	538.090	522.392	517.803	510.324	504.560
TOTAL SAVINGS APRIL 2012- MARCH 2017 INCLUDING LACSEG REDUCTIONS					(125.621)
Annual Savings as a percentage of Base Budget	4.66%	4.73%	3.38%	5.04%	5.17%

Assumptions					
Price Inflation	2.00%	2.00%	2.00%	2.00%	2.00%
Pay Award	0.00%	1.00%	1.00%	2.00%	2.00%
Council Tax Increase	0.00%	2.50%	2.50%	2.50%	2.50%
Taxbase Increase	0.44%	0.30%	0.70%	0.70%	0.70%
Grant Increase/Decrease	-7.30%	-2.80%	-6.36%	-9.00%	-9.00%
Taxbase	259,723.31	224,369.88	225,940.47	227,522.05	229,114.71
Collection Fund Position (£m)	0.605	0.600	0.600	0.600	0.600
Council Tax (£/Band D)	1,077.22	1,104.15	1,131.75	1,160.05	1,189.05

Ongoing Service Pressures					
Demographic Changes	6.400	6.400	6.400	6.400	6.400
Nursery Education	1.687	0.000	0.000	0.000	0.000
Waste Costs	1.800	1.000	1.000	1.000	1.000
Coroners	0.150	0.000	0.000	0.000	0.000
Literacy Co-ordination	0.060	0.000	0.000	0.000	0.000
Public Transport - B_line	0.300	0.000	0.000	0.000	0.000
Animal Disease	0.150	0.000	0.000	0.000	0.000
Carbon Reduction Commitment	0.200	0.000	0.000	0.000	0.000
Lead Local Flood Authority	0.070	0.000	0.000	0.000	0.000
	10.817	7.400 	7.400 	7.400 	7.400