

**Agenda Item No.8 (c)**

**DERBYSHIRE COUNTY COUNCIL**

**COUNCIL**

**10 February 2016**

**Report of the Director of Finance**

**FIVE YEAR FINANCIAL PLAN AND FINANCIAL STRATEGY**

**1 Purpose of the Report**

That Council approves the Council's Five Year Financial Plan for the period 2016-17 to 2020-21.

That Council notes details of further potential budget reductions that may need to be considered to help balance the budget over the medium term.

That Council approves the Financial Strategy.

**2 Information and Analysis**

**(a) Five Year Financial Plan (FYFP)**

The FYFP is updated on an annual basis, this report covers the period 2016-17 to 2020-21. The Plan has been revised, where possible, to reflect the latest funding announcements contained within the Provisional Local Government Finance Settlement 2016-17 and the Government's Comprehensive Spending Review 2015. 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 2020-21.

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 create demand in excess of Government grant support, which since 2010 has 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.

The last full version of the Plan was approved in February 2015. Successive Financial Plans have identified the need to make significant budget reductions. By 2021 it is estimated that the Council will have reduced its budget by £278m since 2010.

The proposed Plan identifies a further set of budget reductions which are set out in Appendix Three.

The level of budget reductions required over the next five year period remains significant. The achievement of a balanced budget is dependent on the Council meeting its budget reduction target annually. 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.

The Plan shows that cuts of at least £109m are required over the five year period up to 2020-21.

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

The Plan was considered by Cabinet on 26 January 2016 and commended to the Council.

## **(b) Funding**

The Provisional Local Government Finance Settlement announced by the Government in December 2015, provides an offer to local authorities of a further three year funding agreement up to 2019-20. The intention is that these multi-year settlements provide funding certainty and stability to enable more proactive planning of service delivery, support strategic collaboration with local partners and enable planned use of reserves. Therefore, the main sources of funding used in the FYFP – Business Rates, Top-Up and Revenue Support Grant – up to the period 2019-20 are based on the Government's indicative allocations.

The four year figures show that Revenue Support Grant will have fallen to just £13m by 2019-20, with the Government confirming that RSG will be removed from local authorities' funding stream in 2020-21 as they move to a revised business rates retention scheme where authorities will be allowed to retain 100% of business rates collected locally.

In addition to the funding allocations shown in the Five Year Financial Plan, the Comprehensive Spending Review 2015 announced additional funding for the Better Care Fund (BCF). The Provisional Settlement has provided indicative allocations up to 2019-20. However, clarity is still sought on any conditions associated with the additional use of BCF resources.

The Government has also announced a review of the Business Rates Retention Scheme. There will be a period of consultation with local authorities over the coming months with the earliest implementation date possible being 1 April 2018. Therefore, it is difficult to estimate any funding figures for 2020-21, as local authorities are yet to see any firm proposals, but it is hoped that the actual business rates figure in 2020-21 would be higher than the prudent assessment shown in the Plan.

### **(c) 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 still to be 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 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. This safety net is likely to be removed and will provide a further risk to be managed through the General Reserve.

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

The Council has identified that there are significant additional costs of between £12m-£15m per annum due to increasing demographic pressures. The Plan assumes that additional funding from the 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 both in terms of a reduction in the Education Services Grant and potential 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 costs 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. The price of oil is currently at record lows and therefore utilities price increases are unlikely to be excessive in the short to medium term.

#### **(d) Summary**

The Plan shows that savings of £109m are required up to the year 2020-21. 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 2017-18 to 2019-20 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 £109m, this figure may rise to £134m.

Appendix Three highlights savings proposals for the period up to 2020-21. However the savings identified in Appendix Three 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.

### **(e) Financial Strategy**

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 and to ensure that the Financial Strategy drives the Five Year Financial Plan, Capital Programme and Revenue Budget.

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

A copy of the Financial Strategy is shown at Appendix Two.

## **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 and crime and disorder considerations.

#### **6 Background Papers**

Comprehensive Spending Review 2015.

Provisional Local Government Finance Settlement 2016-17

Papers held in Technical Section, Corporate Finance, Room 137

#### **7 Officer's Recommendations**

That Council:

- i) approves the revised Five Year Financial Plan
- ii) notes the uncertainty and risks set out in sections (c) and (d)
- iii) notes the possible budget reduction proposals set out in Appendix Three
- iv) approves the Financial Strategy.

PETER HANDFORD

Director of Finance

## FIVE YEAR FINANCIAL PLAN for 2016-17 to 2020-21

	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m
<b>FUNDING</b>					
<b>Business Rates and Government Grants</b>					
Business Rates	16.844	17.175	17.682	18.247	18.606
Top-Up	86.457	88.158	90.758	93.659	95.504
Revenue Support Grant	67.722	44.056	28.633	13.517	0.000
Better Care Fund	0.000	1.900	14.600	25.900	25.900
New Homes Bonus	2.864	3.100	2.000	1.900	1.900
General Grant	10.127	8.000	7.000	6.000	5.000
Local Services Support Grant	0.000	0.500	0.500	0.500	0.500
PFI Grant	10.504	10.504	10.504	10.504	10.504
<b>Sub Total</b>	<b>194.518</b>	<b>173.393</b>	<b>171.677</b>	<b>170.227</b>	<b>157.914</b>
Council Tax	280.200	292.605	307.879	323.953	334.333
Use of Balances	8.942	4.607	2.000	2.000	2.000
<b>TOTAL FUNDING</b>	<b>483.660</b>	<b>470.605</b>	<b>481.556</b>	<b>496.180</b>	<b>494.247</b>
<b>EXPENDITURE:</b>					
Base Budget	489.234	474.718	465.998	479.556	494.180
Price Inflation	1.944	2.000	2.000	2.000	2.000
Living Wage	9.500	7.000	7.000	7.000	0.000
Pay Award (including Living Wage)	3.304	2.789	2.500	2.500	2.500
Contingency for Price Increases	0.957	1.000	1.000	1.000	1.000
Debt Charges	-5.000	0.000	0.000	0.000	0.000
National Insurance Contributions	4.000	0.000	0.000	0.000	0.000
Apprenticeship Levy	0.000	1.000	0.000	0.000	0.000
Pension Fund	0.000	2.000	0.000	0.000	0.000
Interest Receipts	0.000	-1.000	-1.000	-1.000	0.000
On-going Service Pressures (see below)	13.650	13.000	13.000	13.000	13.000
Risk Management Budget	-7.701	-4.000	0.000	0.000	0.000
	<b>509.888</b>	<b>498.507</b>	<b>490.498</b>	<b>504.056</b>	<b>512.680</b>
<b>One-off expenditure:</b>					
One-off revenue support	8.942	3.607	2.000	2.000	2.000
Elections	0.000	1.000	0.000	0.000	0.000
	<b>8.942</b>	<b>4.607</b>	<b>2.000</b>	<b>2.000</b>	<b>2.000</b>
<b>Budget cuts required</b>	<b>-35.170</b>	<b>-32.509</b>	<b>-10.942</b>	<b>-9.876</b>	<b>-20.434</b>
<b>TOTAL EXPENDITURE</b>	<b>483.660</b>	<b>470.605</b>	<b>481.556</b>	<b>496.180</b>	<b>494.247</b>
<b>Ongoing base budget</b>	<b>474.718</b>	<b>465.998</b>	<b>479.556</b>	<b>494.180</b>	<b>492.247</b>
<b>TOTAL SAVINGS APRIL 2016- MARCH 2021</b>					<b>-108.930</b>

Public  
**APPENDIX ONE**

<b>Assumptions</b>					
Price Inflation	2.00%	1.30%	1.80%	2.00%	2.00%
Pay Award	1.00%	1.00%	1.00%	1.00%	1.00%
Business Rate Growth	0.80%	1.97%	2.95%	3.20%	1.97%
Top Up RPI	2.00%	1.97%	2.95%	3.20%	1.97%
Revenue Support Grant Reductions	-30.90%	-34.95%	-35.01%	-52.79%	-100.00%
Council Tax Increase	3.99%	3.99%	3.99%	3.99%	1.99%
Taxbase Increase	1.61%	1.20%	1.20%	1.20%	1.20%
Taxbase	237,812	240,666	243,554	246,477	249,434
Collection Fund Position (£m)	3.108	1.000	1.000	1.000	1.000
<b>Council Tax (£/Band D)</b>	<b>1,165.17</b>	<b>1,211.66</b>	<b>1,260.01</b>	<b>1,310.28</b>	<b>1,336.35</b>
<b>Ongoing Service Pressures</b>					
Adult Care Demographics	11.000	11.000	11.000	12.000	12.000
Safeguarding	1.574	1.000	1.000	1.000	1.000
Coroners	0.152	0.000	0.000	0.000	0.000
Landfill Tax	0.924	1.000	1.000	0.000	0.000
	<b>13.650</b>	<b>13.000</b>	<b>13.000</b>	<b>13.000</b>	<b>13.000</b>
<b>One-Off Pressures</b>					
Adult Care	2.000	0.000	0.000	0.000	0.000
SEN Home to School Transport	0.800	0.400	0.000	0.000	0.000
Mental Health	0.435	0.000	0.000	0.000	0.000
Secondary School Budget	0.150	0.150	0.000	0.000	0.000
Transformation	1.057	0.000	0.000	0.000	0.000
Public Transport	2.500	0.000	0.000	0.000	0.000
General Budget Support	2.000	2.000	2.000	2.000	2.000
IT Investment	0.000	1.057	0.000	0.000	0.000
	<b>8.942</b>	<b>3.607</b>	<b>2.000</b>	<b>2.000</b>	<b>2.000</b>

## 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 will shortly be consulting on a revised Business Rates Retention Scheme, which will result in the cessation of Revenue Support, therefore a nil allocation has been assumed in 2020-21.

## **New Homes Bonus**

The Government has published a consultation in respect of the New Homes Bonus which includes proposals to save £800m which will be diverted to fund adult social care. The allocations are based on the Government indicative allocations under the revised scheme.

## **General Grant**

In 2016-17, the amount of General Grant is based on the following:

- Education Services Grant - £8.247m
- Local Reform and Community Voices Grant - £0.489m
- Business Rates Capping - £1.000m
- Prison Services - £0.142m
- New Bonus returned top-slice £0.249m

From 2017-18 onwards, it is assumed that the only General Grant that will be paid to the Council will be the Education Services Grant (ESG). The ESG is funding provided to local authorities to help fund central services provided to schools. The allocation is dependent on the number of local authority maintained schools. Any schools that become academies will result in a further reduction in the allocation.

## **Local Services Support Grant (LSSG)**

The LSSG is an unringfenced grant. It is assumed that an allocation of approximately £0.500m will be received each year.

## **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 from 2016-17 onwards 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 in 2020-21.

A taxbase increase of 1.2% per annum has been assumed each year from 2017-18 onwards. This is consistent with the increases in taxbase seen in recent years.

A collection fund surplus of £1.000m is assumed each year from 2017-18 onwards.

### **Use of Balances**

In 2016-17 and 2017-18 there are planned use of balances to support one-off pressures, details of which are set out below.

<b>One-Off Pressures</b>	<b>2016-17 £m</b>	<b>2017-18 £m</b>
Adult Care	2.000	0.000
SEN Home to School Transport	0.800	0.400
Mental Health	0.435	0.000
Secondary School Budget	0.150	0.150
Transformation	1.057	0.000
Public Transport	2.500	0.000
General Budget Support	0.000	2.000
IT Investment	0.000	1.057
Risk Management	2.000	0.000
	<b>8.942</b>	<b>3.607</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 to cover the costs of the county council elections.

### **Expenditure**

#### **Price Inflation**

With inflation expected to remain low over the medium term and the price of oil currently at record lows, 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 £9.500m in 2016-17 and £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 2016-17 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 is reviewing its Minimum Revenue Provision which will release £5.000m of budget reductions.

## **National Insurance Contributions**

The Government's Budget 2013 announced changes to the Single Tier State Pension which means that members of a defined benefit scheme will no longer have the option to 'contract out' of the State Second Pension. This will mean that employers will have to pay increased National Insurance Contributions.

## **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.

## **Pension Fund**

This is the estimated cost of increased employer contributions which is anticipated following the actuarial review in 2016-17.

## **Interest Receipts**

The base rate of interest has remained at 0.5 since March 2009. The plan assumes a moderate increase each year from 2017-18 onwards which will generate additional income of £1.000m per annum up to 2019-20.

## **Adult Social Care Precept**

Local authorities with adult social care responsibilities will be able to set a referendum principle 2% higher than the principle that would otherwise apply. The Government has indicated that local authorities will be able to raise the

precept each year up to and including 2019-20. This will raise additional income of £5m-£6m per annum.

### **Ongoing Service Pressures**

Demographic growth in respect of Adult Care is assumed in each year. It is assumed that the additional Better Care Fund allocations between 2018-19 and 2019-20 will support the expenditure.

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.

# **FINANCIAL STRATEGY**

*DERBYSHIRE COUNTY COUNCIL*



Peter Handford B.A. (Hons), CPFA

Director of Finance

**APPENDIX TWO****Approval and Authentication**

<b>Name</b>	<b>Job Title</b>	<b>Signature</b>	<b>Date</b>

**Version History**

<b>Version</b>	<b>Date</b>	<b>Author</b>	<b>Reason</b>	<b>Approved</b>
0.1		P Stone	Draft for Comments	

## APPENDIX TWO

### CONTENTS

INTRODUCTION \_\_\_\_\_

OBJECTIVES \_\_\_\_\_

KEY AREAS \_\_\_\_\_

TIMESCALE \_\_\_\_\_

MOVING RESOURCES TO MEET PRIORITIES AND NEW PRESSURES \_\_\_\_\_

SETTING A MINIMUM LEVEL OF RESERVE BALANCES \_\_\_\_\_

MAINTAINING A SOUND AND SUSTAINABLE FINANCIAL POSITION \_\_\_\_\_

INCOME GENERATION \_\_\_\_\_

TREASURY AND DEBT MANAGEMENT \_\_\_\_\_

CAPITAL EXPENDITURE AND FINANCING \_\_\_\_\_

COUNCIL TAX \_\_\_\_\_

PROBITY \_\_\_\_\_

**APPENDIX TWO****INTRODUCTION**

This strategy sets out the overall framework on which the Council plans and manages its financial resources and to ensure that they fit with, and support, the direction of the Council's priorities.

**OBJECTIVES**

- Deliver a robust, balanced and sustainable budget and asset base, so that sufficient resources are allocated to priority services within the context of the Council Plan.
- Delivering Value for Money to obtain the highest benefit from all resources used in pursuit of the Council Plan.
- Keeping Council Tax (or other forms of local taxation) low; to keep Derbyshire's share of the bill as one of the lowest of all county councils.

The strategy is by design a brief document and is presented as a series of linked elements supported by more detail in other published documents including:

**Five Year Financial Plan** – setting out the medium term spending and financing plans.

**Council Plan** – sets out the key Council priorities for the period 2010-14

**Reserves Policy** – establishes a framework within which decisions will be made regarding the level of reserves held by the Council.

**Treasury Management Strategy** – setting out how cash, borrowing and investment are managed.

**Financial Regulations** – setting out the procedures to ensure that the use of finance is legal, properly authorised, reported and provides value for money.

**Accounting Manual** – provides practical advice on all areas of financial control.

**Internal Audit Plan** – setting out when fundamental financial and other systems will be reviewed over time to test the effectiveness of internal control.



## APPENDIX TWO

**Charging Policy** – setting out the formal framework within which the Council’s fees and charges are regularly formulated, reviewed, agreed and administered.

**Capital Strategy and Corporate Asset Management Plan** – setting out how major investment is planned and managed and helps to deliver the Council’s priorities.

### KEY AREAS

The elements developed as a part of the strategy are:

These key areas are:

- Moving resources to meet priorities and new spending pressures
- Setting a minimum level of reserve balances
- Maintaining a sound and sustainable financial position
- Income generation
- Treasury and Debt Management
- Capital Expenditure and Financing
- Council Tax
- Probity

### TIMESCALE

The strategy is set against a medium-term time frame to fit in with the Council’s corporate planning framework. However, in principle it will exist for longer as it provides the overall direction and parameters for financial management at the Council.

Clearly, the strategy may develop in response to new financial opportunities/risks and new policy directions. Therefore, the strategy is reviewed on a regular basis and at least annually, together with the Five Year Financial Plan.

### MOVING RESOURCES TO MEET PRIORITIES AND NEW PRESSURES

The Council sets a balanced budget that addresses service priorities but is achievable within acceptable Council Tax limits and the context of the Five Year Financial Plan. The strategy to achieve this is set out below.

- Utilise the Council’s budget priority framework when considering proposals for service development and new investment. The framework is based on a robust system of scrutiny that is

## **APPENDIX TWO**

constructed to favour proposals that are aligned to the Council's priorities, together with national targets.

- Identify budget reductions. This is to build capacity, achieve savings targets and to redirect resources to priority areas.
- The Council will undertake strategic service reviews in accordance with the Council's Changing the Way Derbyshire Works strategy.
- The Council will align and examine spending against priorities on an on-going basis. This may from time to time include fundamental reviews of specific areas of the Council's base budget.

### **SETTING A MINIMUM LEVEL OF RESERVE BALANCES**

The Council faces many financial and business risks. These are identified, assessed, and reviewed as part of the corporate and departmental risk registers.

It is the responsibility of the Council's Director of Finance to recommend a minimum level of General Reserve to act as a contingency against any unforeseen events or unexpected liabilities. There is no externally set figure and the Director of Finance needs to recommend a level to reflect local circumstances.

In addition to the General Reserve, the Council maintains Earmarked Reserves that are held for specific purposes. They are provided to meet known commitments and in some cases, to spread expenditure over financial years.

These reserves can exist over a number of years. Although this is a prudent way of safeguarding the Council's financial position, it is equally important to check that resources are not being tied up unnecessarily and that they are in accordance with the Council Plan and accounting practice. These reserves will be regularly reviewed.

### **MAINTAINING A SOUND AND SUSTAINABLE FINANCIAL POSITION**

The revenue budget is monitored and controlled and corrective action is taken where appropriate. It is integrated with service plans derived from the Council Plan and other strategies.

Estimates need to be realistic, accurate and robust having undergone a rigorous and transparent assessment.

## **APPENDIX TWO**

There is strong in-year budgetary control with predictive monitoring and corrective action where necessary, with clear lines of responsibility for preparation, approval and control.

With a principle set regarding a minimum level of General Reserve, the Council plans and manages its finances within this target. This is detailed in the Five Year Financial Plan (FYFP).

The FYFP details how financial resources will be utilised in order to deliver services set out in the Council Plan. It sets out the spending and financing plans over the medium term.

The FYFP is formulated as part of the Council's yearly budget setting process. It is reviewed and updated where necessary and in particular, following the outturn (in July each year). It is then used as the starting point for consultation on the following year's budget.

A key part of the budget process is the assessment of proposals for new spending and investment. The Council has finite resources and is unlikely to afford all new demands for spending. Therefore, this process aims to provide a guide and a more objective assessment against which new spending proposals are prioritised.

It asks Council members/officers to provide a business case for both revenue funding and new capital investment. The system is corporate and is assessed by Council members to assess all bids.

### **INCOME GENERATION**

The Council will optimise the generation and effective use of external funding to achieve the Council's priorities.

The Council will explore and implement opportunities for greater trading and income generation to help the Council be more self-sufficient and less reliant on Government funding.

To optimise income from fees and charges made to service users within the context of the Council's objectives and priorities.

A large element of the Council's funding, both revenue and capital, is derived from external funding, primarily specific grants, Formula Grant and the Business Rates Retention Scheme. Availability of grants can be subject to a detailed and complex bidding process.

## **APPENDIX TWO**

Care needs to be taken that the availability of such funding does not distort the Council's priorities, divert resources from higher priorities, or set up unreasonable future commitments for the Council Taxpayer to meet. Exit strategies need to be developed in all material cases where there is uncertainty over future external funding.

Income from service users – fees and charges – is an important part of the Council's financial strategy. Factors taken into account in setting the levels include – the Council's specific priorities, market forces where applicable, affordability, inflation and the balance with income demanded from Council Tax payers.

Maximising income, although clearly an important consideration, is not the only factor in deciding on the level of fees and charges. The Council has a Charging Policy which sets out best practice in the setting of charges.

### **TREASURY AND DEBT MANAGEMENT**

As well as managing the Council's investment and borrowing on a daily basis, the Council is responsible for the Derbyshire Pension Fund Investments. Its key objective is to place security of investment above return; but to maximise investment income.

The Council has adopted CIPFA's Treasury Management Code of Practice and monitors compliance.

The Director of Finance chairs quarterly strategy meetings with the Investments Officer and Treasury Management staff.

The Investments Committee meets quarterly and manages the pension fund.

All capital investment decisions reflect the Council Taxpayer meeting the majority of all new debt financing costs.

Spend-to-Save schemes are acceptable provided loan repayments are financed from the schemes savings. Such loan repayments will be made as quickly as savings allow, as identified in the business case. It is not intended that spend-to-save schemes will be repaid over as long a period as other debt.

Long term borrowing will be kept within reasonable limits in accordance with the principles in the Prudential Code.

## **APPENDIX TWO**

### **CAPITAL EXPENDITURE AND FINANCING**

The Council's objective is to hold or provide, and develop or maintain such assets as necessary to meet the Council's objectives as identified within the Council Plan and service plans, subject to affordability within the context of the FYFP.

The Council will also adopt the most appropriate funding package for overall capital expenditure.

The Corporate Asset Management Group recommends priorities to Cabinet using the adopted appraisal methodology which involves the following criteria:

- Council goals, objectives and performance indicators being met
- Funding requirements, taking into account any conditional grants/allocations and other external sources
- Statutory obligations including legal and health and safety
- Revenue implications
- Surplus assets available for sale
- The Local Transport Plan influence investment in the highway infrastructure

The Council establishes the level of investment available which is currently projected over a three year rolling programme.

Sources of finance are primarily:

- Long term borrowing
- Grants
- Capital receipts
- Revenue contributions
- Private Finance Initiative
- Third Party contributions

### **COUNCIL TAX**

To ensure Council Tax is within acceptable levels. This involves communication with the Council Tax payers on the annual increase; the amount in comparison with other counties, and the quality of services.

### **PROBITY**

The Council has a duty to safeguard public money by ensuring there are appropriate levels of financial control.

## **APPENDIX TWO**

The Council's approach to financial management is to provide members and officers with a high level of flexibility to optimise service delivery with a controlled framework.

The control framework is outlined in the Annual Governance Statement which is reviewed and approved annually by Council and published in the annual Statement of Accounts.

The Assistant Director of Finance (Audit) produces an annual statement on the adequacy of the Council's control framework.

External Audit comment on the control framework annually in the Annual Audit and Inspection Letter.

The main exchequer services for the County Council and a range of public sector clients are carried out in-house: payroll, pensions, payments and income.

**APPENDIX THREE**

The budget reductions below are detailed for 2017-18 onwards; the Revenue Budget report to this meeting contains full details of budget reductions for 2016-17 and so the two reports should be read together.

**Adult Care****Electronic Home Care Recording - £0.700m (2019-20)**

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 only pay for the exact 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.

**Transport Policy - £1.000m (2017-18)**

We have recently agreed a transport policy for Adult Care, and as part of this we will be re-procuring the fleet, which we lease, to ensure we are using the right type and size of vehicle to meet the needs of our clients. A consultation before any change is agreed is anticipated.

**Cut Grants To Voluntary Sector Organisations - £1.134million (2017-18)**

We are reviewing our grant allocations to ensure they are meeting the priorities set out by Adult Care. It is anticipated that this review will result in savings. The reviews will be subject to consultation and Cabinet approval.

**Consolidate Block Contracts - £0.400m (recurring up to 2020) - total saving £1.200m**

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).

**Increase Client Contributions (co-funding) - £0.129m (2017-18)**

Raising the amount people pay for Council care and support to live at home. This was agreed by Cabinet in July 2014. This change included all clients with more than £50,000 in savings being required to pay for 100% of the cost of their care.

**APPENDIX THREE****Review of Section 117 Cases (Mental Health Act Aftercare) - £0.250m (2017-18)**

People who have been in hospital under certain sections of the Mental Health Act are entitled to free aftercare when they are discharged, as they must live in allocated accommodation and receive support. We will be reviewing everyone currently considered to be covered by Section 117 to ensure the care and support they are receiving is still appropriate or whether they could live safely and well with alternative or reduced support and services. This review will bring about the anticipated savings.

**Address Double Handling - £0.500m (2017-18)**

Double handling is the term used when two care staff care for a client at any one time and is appropriate in situations where, for example, a client needs moving or lifting. We are reviewing our policy and procedures on double handling, as two care staff may not always be needed in certain circumstances. When we have reviewed our policy, we will carry out a client review to ensure double handling is only used where it is needed. We will also look to make better use of moving, lifting and handling equipment which will ensure staff and clients' safety and care.

**Staffing reductions - £2.703m in total (by 2020)**

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 - £0.650m (2017-18), £1.500m (2018-19) - in total £2.150m (by 2020)**

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.

**Reduce Spend on Learning Disability Services to the East Midlands' Average – in total £10.000m (by 2020)**

We currently spend more than many other local authorities on services, support and care, including residential and day services, for people with learning disabilities. We are reviewing this spend and looking at ways of reducing it, while ensuring people can still live independently, safely and well.



**APPENDIX THREE****Demand Management - £0.200m (2017-18)**

Currently a high proportion of people who contact or are referred to Adult Care become clients. We are reviewing our approach and looking at further ways of promoting people's independence and improving the ways we signpost people to other services and support in their communities. This will include more targeted information and increasing support to carers.

**Revised Client Contributions - £0.500m (2017-18)**

It was agreed in July 2014 to raise the amount people pay for Council care and support to live at home. The rise is being introduced in phases and this will be the saving on the phased increase for 2017-18.

**Chief Executive****2017-18****Staffing - £0.041m**

We will employ less people in Communications, Call Derbyshire, Policy and Research and secretarial teams. This will mainly be achieved by not replacing people when they leave.

**Publications and publicity - £0.080m**

We will spend less on publications and publicity including Your Derbyshire.

**Running expenses and voluntary organisation - £0.076m**

Grants to voluntary organisations will be reduced and general running costs will be reduced (subject to consultation).

**2019-20****Staffing - £0.706m**

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****2017-18****Support Service Costs – £0.447m**

Further reductions in back office support.

**Looked After Children - £0.750m**

Helping children remain with their families to reduce costs.

## APPENDIX THREE

### **Other safeguarding - £0.125m**

Further reductions in the costs of legal proceedings.

### **Home to school transport - £1.050m**

Phased removal of the Council's transport subsidy for early years pupils and those in post-16 education with special educational needs (subject to consultation).

### **Disabled Children's Services - £0.530m**

Savings made if changes to the support offered to disabled children through the Aiming High Offer are agreed by Cabinet (subject to consultation).

### **Support for children with special educational needs - £0.324m**

Impact of the review to increase efficiency and effectiveness in the delivery of SEND services.

### **Outdoor Education - £0.149m**

Further reductions in the net cost of the service through reduced costs and/or increased income.

### **Childcare - £0.110m**

Full year impact of the changes being considered in 2016-17.

### **Services for teenagers - £0.107m**

Reductions in the net cost of services provided to teenagers, including making some services, such as the Donut Arts Centre, self-financing.

### **Joint Use - £0.034m**

Reduction in the financial support for joint use provision which supports increased participation in sport.

### **Education Welfare - £0.025m**

Reduction in the net cost of the service through increased income from charges and/or cost savings.

### **School Improvement - £0.120m**

Increasing income from trading with schools and academies.

## **2018-19**

### **Support Service Costs – £0.559m**

Further reductions in back office support.

### **Looked After Children - £0.750m**

Further savings by reducing the numbers of children entering care.

## APPENDIX THREE

### **Home to school transport - £0.625m**

Removal of the Council's transport subsidy for early years pupils and those in post-16 education with special educational needs (subject to consultation).

### **Outdoor Education - £0.297m**

Further reductions through reduced costs and/or increased income.

### **Services for teenagers - £0.107m**

Reductions in services provided to teenagers.

### **Education Welfare - £0.025m**

Increasing income from charges and/or cost savings.

## **2019-20**

### **Support Service Costs – £0.100m**

Further reductions in back office functions.

## **Corporate Resources**

## **2017-18**

### **Administration and employee savings - £1.032m**

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.

### **Additional income - £0.120m**

Additional income from Registration and Transformation Services

### **IT budget - £0.200m**

We will reduce the amount we spend on new IT projects and systems and will spend less on maintaining our current IT systems.

### **Procurement savings £0.255m**

Savings from effective re-procurement of our IT network and Coroner's Service contracts.

### **Reduction in property running costs and maintenance £1.238m**

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.

**APPENDIX THREE****2018-19****Administration and employee savings - £0.443m**

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 - £0.530m**

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 £0.370m**

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 £1.778m**

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 - £0.869m**

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 - £0.610m**

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 £0.105m**

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 £0.560m**

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.

**APPENDIX THREE****Economy, Transport and Environment****2017-18****Gold Card - £0.500m**

We will spend less on Gold Card because fewer bus journeys will be made by Gold Card holders.

**Countryside Service - £0.399m**

This is a further cut in the Countryside Service budget and is the second part of the service restructure. Cabinet is considering a report on 26 January 2016.

**Staff budget reductions - £1.334m**

In 2017-18 staff numbers in the Department will reduce by up to 60 posts. We hope to mainly achieve this by not replacing people when they leave, staff reorganisations and maximising income to pay for staff costs.

**Highway Maintenance - £1.650m**

We will be spending less on routine highways maintenance but to try to keep our roads in good condition, we have already decided to invest £23m over three years on re-surfacing many hundreds of miles of the county's roads. This will stop potholes developing in the first place. We are also looking at working in more efficient ways.

**Street Lighting - £0.760m**

We will save £440,000 by converting street lights with LED fittings which will save energy and maintenance costs. We will also save £210,000 by converting street lights on main roads to LED fittings. A further £110,000 will be saved by turning off street lights on roads the Council is not responsible for. We will help residents on these roads to find alternative ways of lighting their streets.

**Parking services - £0.090m**

This money will be saved by introducing more efficient ways of managing the parking enforcement service.

**Parking schemes - £0.025m**

We will manage residents' parking schemes more efficiently to save money.

**Vehicles - £0.100m**

Reviewing the way we use vehicles to deliver services such as our Countryside Service, street lighting and road maintenance and selling vehicles we can manage without.

**APPENDIX THREE****2018-19****Local bus services - £1.200m**

This budget will reduce by a further £1.200m. A report to be considered by Cabinet on 26 January 2016 will ask for approval to consult on proposals for demand-responsive local transport services.

**School crossing patrols - £0.300m**

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

**Waste - £0.500m**

We will explore the possibility of gaining income by charging people to leave rubble at our household waste recycling centres (subject to consultation).

**Staff budget reductions - £0.400m**

In 2018-19 staff numbers in the Department will reduce by up to 18 posts. We hope to mainly achieve this by not replacing people when they leave, staff reorganisations, and maximising income to pay for staff costs.

**Street lighting - £0.590m**

We will save £370,000 by converting street lights with LED fittings which will save energy and maintenance costs. We will also save £220,000 by converting street lights on main roads to LED fittings.

**2019-20****Street Lighting - £0.140m**

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

**Health and Communities****2017-18****Library Service - £0.330m**

Further review of Library services.

**Arts and Archives - £0.109m**

Further review of Arts and Archive services

**Community Safety Staffing Reorganisation - £0.137m**

Review of the staffing structure, projects and support provided.

## **APPENDIX THREE**

### **Derbyshire Sport - £0.050m**

Proposal to withdraw annual funding to the Derbyshire Institute of Sport (DIS) - part of the Derbyshire Sport partnership.

DIS was set up following the Olympic Games in 2012 to help talented local athletes achieve national and international success and boost the county's reputation.