

# **DERBYSHIRE COUNTY COUNCIL**

**18 December 2014**

## **Report of Director of Finance**

### **Improvement and Scrutiny Committee Consultation**

#### **Purpose of the Report**

To note the details of the Council's Provisional Five Year Financial Plan for the period 2014-15 to 2018-19 and the further budget reduction proposals that the Council is considering to help balance the budget over the medium term.

#### **Information and Analysis**

The Five Year Financial Plan (Plan) is a medium term financial plan that sets out the Council's continued commitment to provide local services which represent the best possible value for money for Derbyshire residents. It builds on the achievements of the past and charts a clear course for the future, in line with service priorities agreed as part of the Council planning process, as well as the Council's financial and other resource strategies.

The Plan's purpose is to support corporate planning, shaping the Council's financial strategy and annual budgets by establishing what resources are available for allocation to Council and community priorities contained within the Council Plan.

The September 2013 version of the Plan identified that savings of £157m were required over the period 2013-14 to 2017-18. As a result, the Council has no choice other than to rethink its services and priorities. Plans have already been put in place to identify a significant element of the savings required in order to achieve a balanced budget over the medium term. The Council will not be able to provide all the services it currently provides. Most will remain, but will need to be run differently.

The Council has launched a campaign for a 'Fairer Deal for Derbyshire' and is committed to an open and transparent debate about the detrimental impact of the funding reductions on local services.

Demographic changes interact with these service priorities and pressures to create increased demands in excess of Government grant support, with the potential to impose Council Tax burdens beyond that which the tax was designed to withstand. The Government has introduced legislation which has

given local communities the opportunity to veto any proposed Council Tax increases that the Government deems excessive. The Council adopts a proactive approach in response to these demands through the identification of future pressures and associated risks, and development and implementation of plans to meet these pressures.

The Council is working in partnership with Derbyshire district and borough councils and Derby City Council, as well as other county councils regionally, to identify areas where efficiencies and service improvements can be achieved from collaboration.

By 2019 the Council will have reduced its 2010 budget by over a third, cutting services by over £250 million. The budget report to Council for 2014-15 contained a number of cuts to balance the budget in 2014-15, some of which resulted in further savings in 2015-16. In total the report identified savings of £30m in 2014-15 and a further £23m in 2015-16; many of these proposals have been recently agreed by Cabinet after consultation and include, for example, recent changes to the criteria for access to Adult Care services and changes to charging for some care services. These reductions, along with those identified in 2013-14, contributed the first element of cuts required over the medium term.

The last full version of the Plan, approved in September 2013, has been provisionally updated, rolled forward a year and a further set of potential budget reductions were identified, totalling nearly £70m. The updated Provisional Plan, covering the period 2014-15 to 2018-19, was presented to Cabinet on 15 July 2014. It reflects the outcomes from the Comprehensive Spending Review 2013, Budgets and Autumn Statements, as well as the detail announced as part of the Local Government Finance Settlement in February 2014, together with assumptions made on pay and price increases, levels of budget reductions, and receipts from Government Grants and Council Tax.

The Provisional Plan is included in this Report at Appendix One. The key financial assumptions, on which the Provisional Plan was developed, are set out at Appendix Two.

If the cuts in the Plan are agreed, after all necessary consultation has been undertaken, the Council will be left with a relatively small shortfall (£4.7m) on the 2015-16 budget reduction target of £48m, with significant steps made towards the achievement of targets for later years. However, further reductions will still be required to balance the budget in those later years. In total, the shortfall remaining over the previous planning period of 2013-14 to 2017-18, is around £15m of the £157m target. This assumes the best case scenario, from a balanced budget position, that all the proposals announced can be achieved and is summarised as follows: -

	2015-16	2016-17	2017-18
	£m	£m	£m
Target	48.2	37.0	21.7
Reductions Proposed	43.5	28.0	20.6
Shortfall	4.7	9.0	1.1

However, we know that some of the timescales necessary to achieve these reductions are already slipping. The latest budget monitoring position, presented to Cabinet on 2 December 2014, reported that of the £31m 2014-15 cuts identified, there would be an under-achievement in budget reduction performance of £4.7m, after additional support for some service areas is received from the Public Health Resource Fund.

Work is taking place around consulting employees and residents on proposed budget reductions. Any proposal which is to be consulted upon will be the subject of a Cabinet report in advance. In addition, as part of our long-term financial planning the Council is asking for views on how it spends its budget for the next financial year. This information will be reviewed and used to assist in the budget setting process for 2015-16.

Service departments have been asked to regularly review their earmarked reserves positions to ascertain whether any one-off funding support can be released.

On 22 July 2014 the Department for Communities and Local Government published a Technical Consultation on the Local Government Finance Settlement for 2015-16. The Council's response to the consultation was reported to the Council Member for Strategic, Policy and Budget on 9 September 2014. The only financial proposal which will affect the Provisional Plan will reduce the 2015-16 Revenue Support Grant by £0.254m, an amount equal to the tax which would have been due on the Council's total emissions had state funded schools continued to be included in Phase 2 of the Carbon Reduction Commitment Energy Efficiency Scheme. The introduction of the Carbon Reduction Commitment was not supported by additional funding from Government and this proposal represents a real reduction in funding.

The full Plan for the period 2014-15 to 2018-19 will be updated to reflect the outcomes of the Autumn Statement 2014, published on 3 December 2014, and the Local Government Finance Settlement 2015-16, scheduled for later in December, and will be presented alongside the Revenue Budget Report in February 2015.

## **Financial Considerations**

The Provisional Five Year Financial Plan 2014-15 to 2018-19 is included in this Report at Appendix One. The Plan has been developed based on a number of key financial assumptions, which are set out at Appendix Two.

## **Background Papers**

Provisional Five Year Financial Plan – Cabinet Report (15 July 2014)

Comprehensive Spending Review 2013 - HM Treasury

Local Government Finance Settlement 2014-15 - Department for Communities and Local Government

Budget 2014 – HM Treasury

Autumn Statement 2013 – HM Treasury

Papers held in Technical Section, Corporate Finance.

**PETER HANDFORD**  
Director of Finance

County Hall  
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3 December 2014

## Provisional Five Year Financial Plan 2014-15 to 2018-19

	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m
<b>FINANCED BY:</b>					
<b>Business Rates and Government Grants</b>					
Business Rates	17.043	17.384	17.732	18.086	18.448
Top-Up	84.135	85.818	87.534	89.285	91.070
Revenue Support Grant	126.225	92.037	82.833	74.550	67.095
New Homes Bonus	1.716	2.125	2.500	2.500	2.500
General Grant	17.472	12.482	9.000	8.000	7.000
Local Services Support Grant	1.178	0.138	0.000	0.000	0.000
Council Tax Freeze Grant adjustment	0.000	0.000	(9.815)	(9.815)	(9.815)
PFI Grant	10.503	10.503	10.503	10.503	10.503
<b>Sub Total</b>	<b>258.272</b>	<b>220.487</b>	<b>200.287</b>	<b>193.109</b>	<b>186.801</b>
Council Tax	255.427	261.240	269.626	278.281	287.216
Use of Balances	3.645	2.000	2.000	3.000	2.000
<b>TOTAL FUNDING</b>	<b>517.344</b>	<b>483.726</b>	<b>471.912</b>	<b>474.390</b>	<b>476.017</b>
<b>EXPENDITURE:</b>					
Base Budget	524.007	512.058	481.726	469.912	471.390
Price Inflation	1.271	7.000	7.000	7.000	7.000
Pay Award	2.343	2.452	4.752	4.789	4.800
Pension Fund Increase	2.700	0.000	0.000	0.000	0.000
Contingency for Price Increases	0.880	1.000	1.000	1.000	1.000
Debt Charges	0.600	0.600	0.600	0.600	0.600
Interest Receipts	0.000	(1.000)	0.000	0.000	0.000
National Insurance Contributions	0.000	0.000	3.000	0.000	0.000
On-going Service Pressures (see below)	7.490	7.800	8.800	9.800	10.400
Risk Management Budget	2.652	0.000	0.000	0.000	1.000
	<b>541.943</b>	<b>529.910</b>	<b>506.878</b>	<b>493.101</b>	<b>496.190</b>
<b>One-off expenditure:</b>					
One-off revenue support	5.286	2.000	2.000	2.000	2.000
Elections	0.000	0.000	0.000	1.000	0.000
	<b>5.286</b>	<b>2.000</b>	<b>2.000</b>	<b>3.000</b>	<b>2.000</b>
<b>Budget reductions required</b>	<b>(29.885)</b>	<b>(48.184)</b>	<b>(36.966)</b>	<b>(21.711)</b>	<b>(22.173)</b>
<b>TOTAL EXPENDITURE</b>	<b>517.344</b>	<b>483.726</b>	<b>471.912</b>	<b>474.390</b>	<b>476.017</b>
<b>Ongoing base budget</b>	<b>512.058</b>	<b>481.726</b>	<b>469.912</b>	<b>471.390</b>	<b>474.017</b>
<b>TOTAL SAVINGS APRIL 2014- MARCH 2019</b>					<b>(158.919)</b>
<b>Annual Savings as a percentage of Base Budget</b>	<b>5.70%</b>	<b>9.41%</b>	<b>7.67%</b>	<b>4.62%</b>	<b>4.70%</b>

**Assumptions**

Price Inflation	2.00%	2.00%	2.00%	2.00%	2.00%
Pay Award	1.00%	1.00%	2.00%	2.00%	2.00%
Business Rate Growth	2.00%	2.00%	2.00%	2.00%	2.00%
Top Up RPI	2.00%	2.00%	2.00%	2.00%	2.00%
Revenue Support Grant					
Reductions	-14.90%	-27.10%	-10.00%	-10.00%	-10.00%
Council Tax Increase	1.99%	2.00%	2.50%	2.50%	2.50%
Taxbase Increase	1.23%	0.70%	0.70%	0.70%	0.70%
Taxbase	230,955.31	232,572.00	234,200.00	235,839.40	237,490.28
Collection Fund Position					
(£m)	1.674	0.600	0.600	0.600	0.600
Council Tax (£/Band D)	1,098.71	1,120.68	1,148.70	1,177.42	1,206.85

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

Adult Care Demographics	5.400	6.400	7.400	8.400	9.400
CAYA Demographics	0.300	1.000	1.000	1.000	1.000
Waste	1.790	0.400	0.400	0.400	0.000
	<b>7.490</b>	<b>7.800</b>	<b>8.800</b>	<b>9.800</b>	<b>10.400</b>

**Provisional Five Year Financial Plan 2014-15 to 2018-19**  
**Key Financial Assumptions**

Description	Notes
Business Rates	Council's share of Business Rates Income under the Business Rates Retention Scheme. The estimate is based on current levels of growth in business rates in Derbyshire set alongside expectations for wider economic growth and assumes business rates growth of 2% each year from 2015-16 onwards.
Top-Up	Grant received from Government under the Business Rates Retention Scheme. An increase of 2% each year is assumed from 2015-16 onwards in line with Government's target CPI inflation.
Revenue Support Grant (RSG)	The 2015-16 RSG indicative allocation shows a 27.1% reduction compared to the 2014-15 allocation. The 2015-16 RSG allocation is based on information published at the time of the Local Government Finance Settlement, announced in December 2013. Austerity measures are expected to continue until the end of the decade, therefore reductions of 10% each year have been assumed from 2016-17 onwards. Details of public expenditure spending will not be announced by Government until after next year's General Election.
New Homes Bonus	The 2015-16 figure is based on the indicative allocation announced as part of the 2014-15 Local Government Finance Settlement. In 2016-17, there is an assumption that the amount of New Homes Bonus will increase by approximately £0.4m. This will be the sixth year of the scheme. Under the final scheme design, local authorities will receive six years of grant based on Council Tax.
General Grant	In 2015-16 the amount of General Grant includes: - Education Services Grant (ESG) - £9.876m Business Rates Compensation - £1.067m - Returned New Homes Bonus top-slice - £0.884m - Local Reform and Community Voices - £0.655m; these amounts (except ESG) are based on indicative allocations announced at the time of the 2014-15 Local Government Finance Settlement. The Settlement confirmed that the Local Welfare Provision Grant (£1.855m) would not be paid in 2015-16 but this has been challenged and is the subject of a Government consultation.

	<p>ESG is funding provided to local authorities to help fund central services provided to schools. CSR 2013 announced that £200m will be top-sliced from the ESG quantum in 2015-16. Therefore the ESG allocation for 2015-16 assumes a reduction of approximately 20% compared to the 2014-15 allocation. Any schools that become Academies will result in a further reduction in the allocation.</p> <p>It has been assumed that, other than ESG, no further General Grants will be awarded by Government.</p>
Local Services Support Grant (LSSG)	The Council is designated as a Lead Local Flood Authority and as such is responsible for managing flooding from local sources, surface water and groundwater. The LSSG for 2015-16 reflects the indicative allocation announced as part of the Local Government Finance Settlement 2014-15. It is assumed that this grant will end after 2015-16.
Council Tax Freeze Grant adjustment	CSR 2013 confirmed that Council Tax Freeze Grants awarded in 2011-12 and 2013-14 would be paid for a year further than originally announced, i.e. up until the end of 2015-16. It is therefore assumed that this funding will cease from 2016-17 onwards.
PFI Grant	Grant 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	A Council Tax increase of 2% is assumed in 2015-16, on the basis that the Council Tax referendum principles for 2015-16 will be similar to those set for 2014-15. However, details of the Government's Referendum Principles will not be announced until December 2014. An increase of 2.5% is assumed thereafter but again, is dependent on Referendum Principles each year. A 1% increase in Council Tax equates to approximately £2.9m. Taxbase increases of 0.7% each year have been assumed from 2015-16 onwards, which is consistent with historic trends. A collection fund surplus of £0.6m is assumed each year from 2015-16 onwards.
Use of Balances	There is a planned use of the General Reserve of £2m in each year from 2015-16 onwards.
Elections	There will be an additional call on the General Reserve of £1m in 2017-18 to cover the administration costs of the County Council elections.



Price Inflation	A general increase of 2% has been assumed, in line with the Government's CPI inflation target. Price increases of £7m have been included from 2015-16. 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	The Comprehensive Spending Review 2013 (CSR 2013) announced an extension of the 1% cap on public sector pay until 2015-16. Therefore, an increase of 1% is assumed in 2015-16, with increases of 2% thereafter. A 1% increase in pay equates to £2.5m in 2015-16. (The actual increases will be dependent upon the outcome of local government pay negotiations.)
Pension Fund Increase	Employer contributions increase of £2.7m in 2014-15, based on the outcome of the actuarial review in 2013. There is a further review in 2016 which could lead to further changes in contribution rates in 2017-18. At present, no change can be predicted.
Contingency for Price Increases	An amount of £1m has been set aside each year from 2015-16 onwards to accommodate non-standard inflation, such as high energy prices.
Debt Charges	The Council's capital expenditure is partly funded from additional borrowing while 4% of the outstanding balance is repaid each year. This equates to an increase of £0.6m each year which reflects the additional cost of debt charges relating to anticipated borrowing requirements.
Interest Receipts	Assumed base rate increase of 0.5% in 2015-16 in line with the latest economic forecasts. A 1% base rate change equates to £2m.
National Insurance Contributions	Budget 2013 announced changes to Single Tier State Pension which means that members of a defined benefit pension scheme will no longer have the option to 'contract-out' of the State Second Pension. This means that employers will have to pay increased National Insurance Contributions, estimated at £3m in 2016-17.

On-Going Service Pressures	Demographic growth in respect of Adult Care has been assumed in each financial year commencing 2015-16, with a £6.4m increase in 2015-16, rising by £1m each year thereafter. Demographic growth in respect of Looked after Children has been assumed at a rate of £1m each year, commencing in 2015-16. The estimated impact of incremental waste costs has been assumed to be an increase of £0.4m in each financial year.
One-Off Budget Support	One-off pressures up to the value of £2m each year to be agreed as part of the Revenue Budget setting process.