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Corporate Resources

Medium Term Financial Strategy 2020/21 to 2022/23

Purpose

- 1.1 To outline the proposed Medium Term Financial Strategy (MTFS) for the Council's revenue and capital budget over the next three year period 2020/21 to 2022/23.
- 1.2 Robust financial planning and financial management alongside our budget preparation, performance management and stakeholder reporting is an integral part of our corporate governance and gives us the ability to look strategically and align our priorities beyond the current budget period. This is crucial to support and ensure our resilience and long-term financial sustainability.
- 1.3 Given the currently level of national economic uncertainty, fluctuating currency values, and the widespread pressures on public spending, it is more important than ever that we have an understanding of our financial outlook and continue to plan effectively for the future, and this planning be aligned to our Council Plan vision and priorities.
- 1.4 The MTFS sets out the Council's approach to the prudent management of our finances against a reducing reliance on central government funding and more of a reliance of local funding sources from council tax, business rates and fees and charges income.
- 1.5 This report comments on the risks that are facing the Council in the next three years and outlines concerns including the timings and outcomes including the Government's Spending Review, 'Fair Funding' proposals and its 'Business Rates Retention' proposals and the increasing demands and cost pressures in our social care services for both children and adults. The report also outlines potential mitigation of some of these risks.
- 1.6 Resource projections for the next three years are included and outlined in the Medium Term Financial Plan (sets out our forecasts and the £ numbers), together with the financial challenges that we face and the approach planned to meet the Council's priorities over this period.

Recommendations

- 2.1 To endorse the Council's Medium Term Financial Strategy for 2020/21 to 2022/23 and recommend that Full Council approve this Strategy on 25 September 2019.

- 2.2 To note the Capital Strategy and recommend the approval of the strategy to Council on 25 September 2019.
- 2.3 To approve the Corporate Resources directorate operational savings that do not require consultation outlined in section 12.2 and in Appendix 4.
- 2.4 To approve the Peoples directorate operational savings that do not require further consultation outlined in section 12.5 and Appendix 5.

Reasons

- 3.1 To gain Cabinet approval for the approach to formulating the budget plan for 2020/21 to 2022/23.
- 3.2 To enable resource allocation in accordance with the strategic priorities identified in the Council Plan.
- 3.3 The Council is required to set balanced revenue and capital budgets for 2020/21 by March 2020. Under the Prudential Code we are also required to demonstrate the affordability of our revenue budget for the two subsequent financial years, after taking into account our capital expenditure plans.
- 3.4 To comply with our high level budget timetable in order to provide assurance that we can prepare a balanced budget in accordance with statutory deadlines.
- 3.5 To comply with statutory obligations in respect of consultation.

Supporting information

4. Key Areas

4.1 Key areas of the report are outlined below:

- I. Medium Term Financial Strategy - outlined in section 4.2
- II. The Council's current Medium Term Financial Plan for 2020/21 to 2022/23, outlined in section 5
- III. The national context for local government outlined in section 6
- IV. The local context for Derby outlined in section 7
- V. The Council Plan outlined in section 8
- VI. The Draft Medium Term Financial Plan for 2020/21 to 2022/23, outlined in section 9 and Appendix 1
- VII. Risk planning, outlined in section 10
- VIII. Consultation and the high level budget timetable, outlined in section 11
- IX. Early approval of savings by directorate, outlined in section 12.

4.2 Medium Term Financial Strategy

- 4.3 The purpose of the Medium Term Financial Strategy (MTFS) is to provide information to members, officers, the public and other stakeholders on the authority's planned revenue and capital expenditure and its financing over the next three years.
- 4.4 It supports affordable, sustainable service delivery through the planned use of revenue budgets, capital budgets, reserves and balances. It encompasses:
- I. A Savings Strategy
 - II. A Reserves Strategy
 - III. A Council Tax Strategy
 - IV. A Treasury Management Strategy and
 - V. A Capital Strategy.



- 4.5 The MTFS sets out the Council's strategic approach to the management of its finances. It also outlines the resource projections for the forthcoming years and the financial challenges that we will face, including cost and service demand increases, emerging growth pressures and the planned approach to meet the priorities identified by the Council. The strategy outlines significant risks facing the Council and considers actions to mitigate these risks.
- 4.6 The MTFP sits within the strategy and outlines the numbers relating to the plan for future years. The Plan that went to Council on 27 February 2019 was out of balance across the three years from 2020 to 2023 by £7.458m with gaps of £5.075m in 2020/21 and £2.383m the following year. All saving and efficiency options are being considered with a focus on the following new strategic themes.
- 4.7 **The Savings Strategy - Planned Themes**
- 4.8 We have identified some themes where cashable financial savings could be delivered. These will continue to be unpacked over the coming weeks and months to identify further options for consideration in the Medium Term Financial Planning process as we go along and report back to Cabinet. Although these themes are separately identified, there is crossover in many areas which will be examined throughout the process.
- I. **Organisational Structures - Layers and Levels**
Layers and Levels of colleagues are being considered to ascertain if any efficiency can be made in the way we currently work and deliver services.

II. Demand Management

By reviewing and in some cases updating the nature of the council's role and relationship with customers, the Council will be seeking alternative mechanisms to meet customer needs and thereby better manage demand within the resources available. For example, there is a significant level of concern within the Council over the pressures building in the system for demand for Children's services. We are reviewing processes to try and curtail the volatility and increasing demand.

III. Fees and Charges and Income Generation and collection

Fees and charges and income generation will be reviewed across the Council to ensure that the appropriate amounts are being costed across the services. As an option, we can include differential charging based on people's ability to pay, i.e. need to satisfy and challenge on fairness. Using discretionary fees and charges is one of the key income-generating options available to local authorities. This theme will also encompass protecting public funds by optimising the recovery of funds due to the Council, for example Business Rates, Council tax and Sundry Income.

IV. Bureaucracy and Inefficiency

We will have a root and branch review of the set methods of doing things and challenge that they are not seen as being more important than having an efficient, effective organisation. Strong corporate grip and governance will mean red tape and duplication is minimalised and lead to efficiencies.

V. Channel Shift and Digital

The basic aim of channel shift is to take communication and customer contact and shift it from expensive to in expensive mediums. There are opportunities to 'shift' communication to digital as technology continues to evolve. This will identify efficiencies and cashable savings.

VI. Commercialism

We will apply commercial principles to all service areas across the Council – whether generating income or simply becoming more effective and business like. The aim being to make us accountable for every £ of spend.

VII. Procurement and Commissioning

Commissioning is the process of continuously identifying our needs and then designing and planning services to meet those needs, securing these services at the best value for money cost and then monitoring and evaluating them.

Procurement is the process of buying of goods and services from an external agency. Both of these activities are going to be re-examined to ascertain if further efficiencies can be made either separately or in conjunction with one another, sharing expertise and lessons learnt.

VIII. Lean and Effective

Lean is a continuous improvement methodology that understands value from the all perspectives and focusses on improving processes that deliver value and cuts out waste. Lean thinking is a methodology that aims to provide a new way to organize human activities and processes to deliver more benefits to

society and value to individuals while eliminating waste.

IX. Spending and Income Outliers

We will do more benchmarking with other public sector organisations for both spending and income generation to identify areas for potential efficiency gains.

4.9 Reserves Strategy

- 4.10 Council reserves are set aside for many different purposes. We should use reserves to balance the budget with caution and only as a last resort, as the reserve amount used would be a 'one off' only and the gap would have to be permanently met from reducing existing budgets or increasing income at some stage. It would not be prudent to bridge the budget requirement where long term recurring savings are needed to balance the budget through the use of reserves would have the impact of using up those reserves very quickly, meaning that they would not be available for any other one off purposes. Unbudgeted and unplanned use of reserves impacts on the Council's ability to mitigate risks in the short and medium term.
- 4.11 Recent years have seen greater than anticipated use and future commitment of Council reserves e.g. the A52 project overspend has been and will be funded from reserves. We have also needed to use our reserves balances to fund the unprecedented demands on our Children's Services in 2018/19 where there are signs in the first three months of 2019/20 that these demands and pressures are continuing. We may therefore have to use more reserves in Children's Services if we are unable to curtail the demand.
- 4.12 So, serious consideration will be given to our remaining reserves balances and adequacy and our Medium Term Financial Strategy will take into account how we need to plan to replenish our reserves balance. At the end of the 2018/19 financial year, our earmarked reserves together with the general fund balance stood at £112.840m with future commitments including ring-fenced amounts anticipated to be circa £91.169m – leaving an available balance for any unplanned and unavoidable expenditure of £21.671m. We should aim to replenish this amount to nearer £30.000m across this MTFP meaning that any additional funding or resource that becomes apparent throughout the planning process and through monthly monitoring should be considered in the first instance to replenish our reserves balance.

4.13 Council Tax Strategy

- 4.14 Council Tax is subject to significant central control, much of which is enshrined in primary legislation.
- 4.15 The Localism Act 2011 makes provision for the Council and our council tax payers to have the power to instigate a local referendum on local issues and to veto excessive council tax increases.
- 4.16 In 2016/17 the Chancellor granted councils the freedom to set a social care precept of up to 2% increasing the referendum threshold to 3.99% for that year, and we took advantage of this and we increased council tax by this amount in that year.
- 4.17 In 2017/18, the Government's Local Government Finance Settlement granted Council's the flexibility to further raise council tax specifically to fund adult social care costs by allowing us to raise an Adult Social Care precept by up to 3% in 2017/18 and 2018/19 or by up to 6% over the three years to 2019/20. For good financial reasons, we again took advantage of this and we increased council tax by 3% in 2017/18 and again by 3% in 2018/19.

- 4.18 Also, in each of the 2018/19 and 2019/20 Local Government Finance Settlements, we were given the approval to further increase council tax by up to 3% rather than 2%. Again, for good financial reasons, we took advantage of this and we increased council tax by a further 2.99% in each of these two financial years.
- 4.19 If further council tax powers are announced for 2020/21 and future years to increase council tax beyond the current referendum limit of 2%, our MTFS recommends the Council to apply increases up to the referendum limit. Our current financial model assumes a council tax increase of 1.99% (up to the current referendum limit) in each of the next three years 2020/21 – 2022/23.
- 4.20 **Treasury Management Strategy**
- 4.21 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). Usable reserves and working capital are also resources that we can make available for investment. The Council's current strategy is to maintain borrowing and investments below the underlying CFR levels.
- 4.22 The table below is taken from our Treasury Management Strategy 2019/20 and outlines the current position as at 31 March 2019 from analysing the balance sheet and forecasts future changes.

Balance Sheet Summary and Forecast

	<u>31.3.18</u> <u>Actual</u> <u>£m</u>	<u>31.3.19</u> <u>Estimate</u> <u>£m</u>	<u>31.3.20</u> <u>Forecast</u> <u>£m</u>	<u>31.3.21</u> <u>Forecast</u> <u>£m</u>	<u>31.3.22</u> <u>Forecast</u> <u>£m</u>
<u>General Fund</u> <u>CFR</u>	<u>404.5</u>	<u>407.2</u>	<u>449.2</u>	<u>493.0</u>	<u>511.9</u>
<u>HRA CFR</u>	<u>231.4</u>	<u>231.7</u>	<u>231.7</u>	<u>231.7</u>	<u>231.7</u>
<u>Total CFR</u>	<u>635.9</u>	<u>638.9</u>	<u>680.9</u>	<u>724.7</u>	<u>743.6</u>
<u>Less: Other</u> <u>debt liabilities</u>	<u>-95.8</u>	<u>-91.7</u>	<u>-87.9</u>	<u>-85.9</u>	<u>-82.9</u>
<u>Borrowing</u> <u>CFR</u>	<u>540.1</u>	<u>547.2</u>	<u>593.0</u>	<u>638.8</u>	<u>660.7</u>
<u>Less:</u> <u>External</u> <u>borrowing</u>	<u>-363.2</u>	<u>-351.8</u>	<u>-340.2</u>	<u>-339.0</u>	<u>-338.3</u>
<u>Internal</u> <u>(over)</u> <u>borrowing</u>	<u>176.9</u>	<u>195.4</u>	<u>252.8</u>	<u>299.8</u>	<u>322.4</u>
<u>Less: Usable</u> <u>reserves</u>	<u>-239.0</u>	<u>-235.5</u>	<u>-213.2</u>	<u>-199.3</u>	<u>-194.8</u>
<u>Less:</u> <u>Working</u> <u>capital</u>	<u>-37.1</u>	<u>-44.5</u>	<u>-64.5</u>	<u>-64.5</u>	<u>-64.5</u>
<u>Investments</u> <u>(or New</u>	<u>99.2</u>	<u>84.6</u>	<u>24.9</u>	<u>-36.0</u>	<u>-63.1</u>

<u>borrowing)</u>					
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4.23 The Council has an increasing CFR due to the future planned unfunded capital programme, we forecast that the ability to meet this increase through usable reserves, working capital and reducing investments would result in investment levels falling just below the estimated minimal level to meet our liquidity needs (£20m) in 2020/21 and 2021/22 and therefore we may have a need to borrow during these years with a consequential impact on our revenue budget.

4.24 Our investment and borrowing strategies being pursued are detailed in the 2019/20 Treasury Management Strategy which was agreed by Full Council on 13th February 2019.

4.25 **Capital Strategy**

4.26 **Capital Expenditure and Financing**

Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year. The Council's policy on capitalisation is set out in Appendix 2.

4.27 In 2020/21, the Council is currently planning capital expenditure of £123.436m as summarised below:

Table below: Prudential Indicator : Estimates of Capital Expenditure

	2018/2019 Actual £m	2019/20 Budget £m	2020/21 Budget £m	2021/202 2 Budget £m	2022/2023 Budget £m
General fund Services	57.228	175.661	96.068	35.197	6.518
Council Housing (HRA)	16.910	25.219	27.368	28.312	26.318
Capital Investments	0	0	0	0	0
TOTAL	74.138	200.880	123.436	63.509	32.836

4.28 Our current main capital projects include:

- I. £2m contribution to a new secondary school, the Derby Cathedral School which is being delivered by the Department For Education
- II. £3.120m for the development of a special needs unit at Bemrose Secondary School
- III. £3.980m for the redevelopment of St Clare's Special School
- IV. £3.319m for the redevelopment/remodelling of Homes for Older people
- V. £43m for the A52 highway improvements
- VI. £11.180m for the Market Hall refurbishment
- VII. £24m for the refurbishment of a new and enhanced Assembly Rooms

- VIII. £42m for a new swimming pool at Moorways
- IX. £19.087m further expenditure for the Our City Our River flood defence project.

- 4.29 The Housing Revenue Account (HRA) is a ring fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. The HRA capital expenditure is therefore recorded separately in the capital programme, and includes the building of 300 new homes over the forecast period.
- 4.30 The lifting of the debt cap for the HRA in October 2018 is intended to herald a new era for Council house delivery, with an expected 10,000 Council homes a year being delivered across the country. There remain, however, considerable challenges in bringing this about – not only financial, the scale of Right to Buy discounts being the prime one, but also the availability of land and appropriately trained building workers and development expertise.
- 4.31 The HRA Business Plan (HRABP) and capital programme do not yet reflect the lifting of the debt cap – current proposed funding plans will be contained within the previous cap and are ambitious. The Council will consider whether there is an opportunity to invest even more in Council housing as a result of the lifting of the debt cap in order to accelerate delivery still further. If adjustments to the plans are then required, further reports will be brought back to the Cabinet.
- 4.32 **Governance and Process for updating the Capital Programme**
 Programme Managers have been asked to put forward their proposed capital programme during late June and early July 2019 to include in the Council's capital programme. Any new schemes above £1.0m will be subject to a newly installed Gateway process. This process includes going through a number of gateways to allow for acceptance of a new proposal against service objectives and council plan, and will include feasibility, design of a full business case, financial appraisal. Other new bids below £1.0m will be considered by the corporate capital programme board (CCPB) in the first instance and recommendations will be put forward to Cabinet.
- 4.33 The final capital programme will be presented to Cabinet in February following a consultation process and then to Council for final approval.
- 4.34 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or be funded through borrowing, leasing or a Private Finance Initiative. Our actual and planned financing of capital expenditure commitments to date is as follows:

4.35 **Table below: Capital Financing**

	2018/19 Actual £m	2019/2020 Forecast £m	2020/21 budget £m	2021/22 Budget £m	2022/23 Budget £m
External Sources	56.983	79.494	57.090	40.421	25.028
Own resources	16.475	121.386	66.346	23.088	7.808

Borrowing, leasing or PFI Debt	0.680	0	0	0	0
Total	74.138	200.880	123.436	63.509	32.836

The Council's current indicative capital programme for 2020/21 – 2022/23 includes forecasts for 'single capital pot' known as Supported Capital Expenditure - Capital (SCE C) as indicative allocations for schools and highways. Historically the Council has taken the decision to apply some of this funding to programme areas with no SCE C funding of their own for example the Property programme and ICT programme and use borrowing as the alternative in the schools and highways programme, because it is more cost efficient. However, as a large number of the Council's schools have transferred to Academy status and will continue to do so, the schools' capital available allocation has greatly reduced.

- 4.36 The decision has been taken on the past to apply borrowing to schools and highways programmes as the borrowing costs could be spread over a number of years as these are assets with a longer asset life, making it less costly than if we borrowed for short term assets such as the ICT hardware renewals whose asset life is typically 3 to 5 years.
- 4.37 As SCE C funding for future years for schools will be greatly reduced, this will have an impact on schemes that do not receive any SCE C funding of their own and will mean the Council will need to consider how it wishes to proceed on these programmes for future years. Alternative funding sources will therefore need to be considered should it be deemed essential that these schemes are to progress.
- 4.38 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively proceeds from selling capital assets, known as capital receipts, may be used to replace debt finance. Planned (MRP/repayments) and use of capital receipts are as follows:
- 4.39 Table below :Replacement of debt finance (General Fund)

	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Budget £m	2021/22 Budget £m	2022/23 Budget £m
Own resources	2.854	3.250	4.432	5.105	5.875

The Council's full MRP statement is set out at Appendix 3.

- 4.40 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £46m during 2019/20, based on the above figures for expenditure and financing. The Council's estimated CFR is set out in Appendix 10 of the 2019/20 Treasury Management Strategy.

4.41 Asset Management

To ensure that capital assets continue to be of long-term use, the council has adopted a corporate approach to the planning and management of the property portfolio. To support the delivery of the Council's service needs and achieve corporate objectives, an asset management strategy is in place. The Corporate Asset Management Plan (2018-2023) was approved by Cabinet in September 2018 and sets the strategic direction for the use, management and development of our property assets.

The Council's asset management strategy can be found at <https://www.derby.gov.uk/housing/land-and-premises/corporate-asset-management-plan/>

4.42 Asset disposals

When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts. The council plans to receive £57.321m of capital receipts in the financial years shown in the table below including Right To Buy receipts:

Table below : Capital Receipts

	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Budget £m	2021/22 Budget £m	2022/23 Budget £m
Asset Sales	4.922	14.275	14.150	11.300	11.100
Loans Repaid	0.622	1.301	1.668	2.386	1.141
TOTAL	5.544	15.576	15.818	13.686	12.241

4.43 Treasury Management

Our Treasury Management Strategy aims to keep sufficient, but not excessive, cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in our current bank account. The following tables are extracted from Appendix 10 of the current approved Treasury Management Strategy.

- 4.44 The Council is typically 'cash rich' in the short term as the revenue income is received before it is spent, but 'cash poor' in the longer term as capital expenditure is incurred before being financed. From a financial prudence perspective, we make best use of our revenue cash surpluses by offsetting against capital cash shortfalls to reduce overall borrowing for as long as possible. Due to previous decisions, the Council currently has £351.97m borrowing at an average interest rate of 4.39% and £67.838m treasury investments at an average rate of 0.81%.

4.45 Borrowing Strategy

The Council's main objectives when borrowing are to achieve a low but certain cost

of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between lower interest short-term loans (currently available at around 0.90%) and long term fixed rate loans where the future cost is known and can therefore be budgeted for but the interest rates are higher (currently moving between the 2.4% to 2.6% range).

- 4.46 The Council's projected levels of total outstanding debt (which comprises borrowing, PFI liabilities, leases) are as follows:

External Debt	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Borrowing	351.97	340.2	339.0	338.3
Other Long Term Liabilities	91.21	87.9	85.9	82.9
Total	443.18	428.1	424.9	421.2

- 4.47 Statutory guidance requires us to ensure that our total debt should remain below the capital financing requirement, except in the short-term. The gross debt indicator and CFR is as follows:

CFR	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
General Fund	400.84	449.2	493.0	511.9
HRA	233.88	231.7	231.7	231.7
Total CFR	634.72	680.9	724.7	743.6

4.48 **Liability Benchmark**

To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are always kept to a minimum level of £20m at each year end. This benchmark is currently £284m and is forecast to rise to £395m over the next three years.

4.49 **Affordable Borrowing Limit**

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. The Affordable Borrowing Limit is as follows:

Authorised Limit for External Debt	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Borrowing	765.9	731.8	749.1	756.0
Other long-term	102.0	87.9	85.9	82.9

liabilities				
Total	867.9	819.7	835.0	838.9

4.50 **Investment Strategy**

Treasury investments come into being from receiving cash before we need to pay out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government in the Bank of England, other local authorities or selected high quality banks, to minimise the risk of loss. Money that will be held for longer terms can be invested more widely, including bonds, shares and property to balance the risk of loss against the risk of receiving interest rate returns below the level of inflation. Both near-term and longer-term investments may be held in what are known as 'pooled funds', where an external fund manager manages our investment and makes decisions on which particular investments to buy and where the council may request its money back at short notice.

4.51 **Governance**

Decisions on treasury management and borrowing are made daily and are therefore delegated to the Strategic Director of Corporate Resources and associated treasury management staff, (however this will change to the newly appointed Director of Financial Services who will be joining the Council in August 2019) who must act in line with the treasury management strategy approved by Council. Quarterly reports on the treasury management budgets are presented to Cabinet, along with a mid-year report on the treasury management activities presented to Cabinet. The Audit and Accounts Committee is responsible for scrutinising treasury management decisions.

Decisions on service investments are made by the relevant service manager in consultation with the current Strategic Director of Corporate Resources and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme by Full Council.

4.52 **Investments for Service Purposes**

The Council makes investments to assist local public services, including making loans to local service providers, local small businesses to promote economic growth. As a 'lender of last resort' on occasions, the Council is sometimes willing to take more risk than with treasury investments, however we always plan for such investments to break-even or generate a small profit after all incurred costs.

4.53 **Commercial Activities**

With Central Government financial support for local public services declining, the Council's strategy is not to invest in commercial property purely or mainly for financial gain.

4.54 **Liabilities**

In addition to borrowing of £351.971m detailed above and PFI liabilities of £90.801m and transferred Debt of £0.405m, our strategy also gives a commitment to making future payments to cover our pension fund deficit, which at the last actuarial review

was valued at £461.506m. We have also prudently set aside £9.6m to cover risks of Business Rates appeals and Insurance losses. The Council also has potential liabilities for the Derby Homes pension deficit and a business rates loss of income pending the outcome of a national legal case brought by the NHS, but at this stage, we have not put aside any money due to the level of uncertainty around this potential liability.

4.55 Governance

Decisions on incurring new discretionary liabilities are first reviewed and taken by the Corporate Leadership Team and Cabinet and reviewed. These will be challenged again during July by Strategic Directors. The risk of liabilities crystallising and requiring payment is monitored by corporate finance and reported in the Council's year-end financial statements.

Further details on liabilities and guarantees are on pages 17, 83-89, 92-93 and 106-111 of the 2018/19 Draft Statement of Accounts.

[https://www.derby.gov.uk/media/derbycitycouncil/contentassets/documents/reports/financialreports/Draft Statement of Accounts 2018 19.pdf](https://www.derby.gov.uk/media/derbycitycouncil/contentassets/documents/reports/financialreports/Draft%20Statement%20of%20Accounts%202018%2019.pdf)

4.56 Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants. The proportion of financing costs to net revenue stream are as follows:

Ratio of Financing Costs to Net Revenue Stream	2018/19 Actual %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
General Fund	3.01	3.26	3.67	4.06
HRA	20.91	18.70	18.49	18.26
Total	6.51	6.54	6.81	7.08

4.57 Sustainability

Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Strategic Director of Corporate Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable because of the rigorous budget setting process currently in progress in conjunction with members programme officers and the finance team.

4.58 Knowledge and Skills

The council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Strategic Director of Corporate Resources is a qualified accountant with 27 years post qualification experience; the Director of Property is suitably qualified and experienced. Heads of Finance are qualified accountants as are Group Accountants. The Council pays for other colleagues to study towards

relevant professional qualifications including CIPFA, and AAT.

Where Council colleagues don't have the knowledge and skills required, we make best use of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as Treasury Management Advisers, the District Valuer's Office as property consultants and valuers. This approach ensures that we have access to knowledge and skills commensurate with its risk appetite.

5. The Council's Medium Term Financial Plan 2019/20 – 2022/23

- 5.1 The current Medium Term Financial Plan was agreed by Full Council on 27 February 2019, identified the need for £12.966m of permanent savings over the four year period 2019/20 to 2022/23 and a budget gap of £7.458m. Work is ongoing to identify solutions to fill the gap and any new pressures that are forthcoming.

Permanent Savings	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Total	(7.183)	(3.719)	(1.436)	(658)	(12.996)

Budget Gap	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Total	-	(5.075)	(2.383)	-	(7.458)

- 5.2 For 2019/20, £7.183m of savings were identified and are currently being tracked for delivery. Delivery of 2019/20 savings will continue to be monitored and managed and regularly reported to Cabinet on a quarterly basis within our forecast of out-turn reports.
- 5.3 The table below outlines the latest status of the £7.183m savings for 2019/20:

Blue: Delivered and banked

Green: On track for saving to be delivered

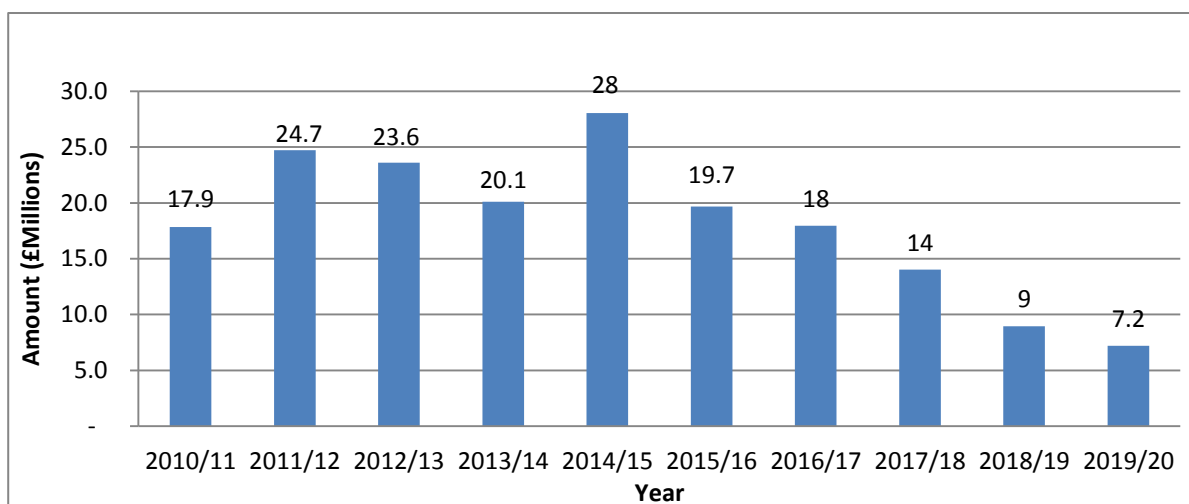
Amber: Not on track – mitigation required if the saving falls short

Red: Potentially undeliverable in this format

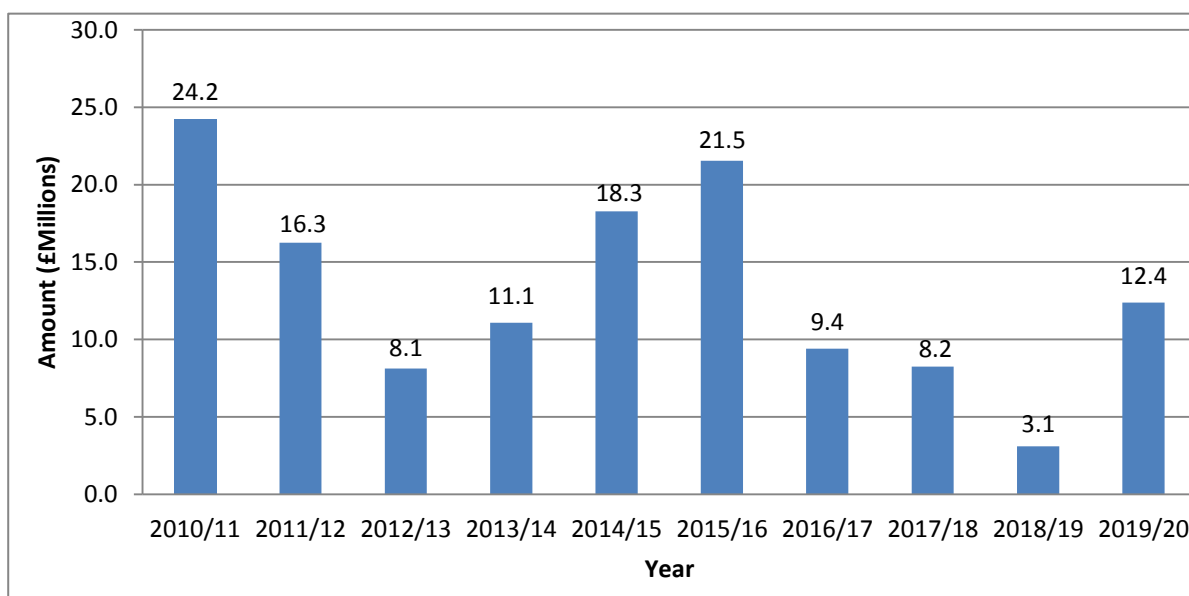
Rating	2019/20 £m
Blue	(4.939)
Green	(1.345)
Amber	(0.678)
Red	(0.221)
Total	(7.183)

- 5.4 The tables below show the year on year savings and pressures for the last ten years from 2010/11 to 2019/20

This first column chart shows the Council's total savings for the period 2010/11 to **2019/20 which equates to £182.2 million:**



This column chart shows the Council's total pressures for the period 2010/11 to **2019/20 this equates to £132.6 million:**



- 5.5 For 2020/21 to 2022/23 further savings of £3.719m, £1,436m, and £0,658m were also agreed by Council on 27 February 2019 which will be monitored and reviewed as necessary as part of this planning process.
- 5.6 To deliver a balanced, sustainable Medium Term Financial Strategy for 2020/21 - 2022/23, realistic and robust savings and savings plans will be required to be identified and delivered. The savings agreed in the 2019/20 budget must also be achieved or mitigated through alternative savings, as compromises to this approach would increase the funding gap and require further savings and impact on the Council's priorities and ability to deliver and overall balanced budget position across the next three years.
- 5.7 Emerging and current planned pressures both capital and revenue will be scrutinised to ensure they are robust, in line with the objectives of the Council and are necessary as being over and above the services we are currently providing. For example could pressures be consumed within the service either by doing things differently and releasing current resource for the emerging priority? Any planned pressures no longer

required need to be highlighted in the plan to ensure finances are being managed to optimum effect and diverted to the higher priority service areas where need be.

- 5.8 The Council needs to continue joint working with other authorities, public sector, NHS and private organisations on a range of activities. Opportunities to work more closely with these organisations to achieve shared outcomes, share costs and expertise and generate efficiencies will continue to be pursued in line with the strategic themes outlined in section 4.5 of this report.
- 5.9 The Council's Corporate Leadership Team is working with the Senior Leadership Network of the Council to work up savings proposals across the whole of the Council. These requirements for savings are taking a holistic strategic approach, aligned to our Council Plan priorities.
- 5.10 The Housing Revenue Account has a separate process that runs alongside of the Council's Medium Term Financial Strategy. whereby a detailed 30 year business plan has been agreed and will continue to be refreshed annually, covering both the revenue and capital cost implications associated with the managing and maintaining the Council's housing stock. This provides the Council with the assurance that the fund is sustainable over the long term.

6. National Local Government Finance Context

- 6.1 Brexit is causing major delay to many political decisions including the planned Local Government Spending Review. The Chancellor announced that the Spending Review would be revealed later in the Autumn and would cover the period 2020/21 to 2022/23. Due to Brexit, a three year spending review is looking like being unlikely and could change to a single year for 2020/21 only.
- 6.2 Forecasts about what might happen are speculative. A one-year roll-forward would be more than just an additional "fifth year" on the expiry of the current four-year settlement and could follow the same themes - for example more one off funding to Social Care?
- 6.3 A knock-on effect of a one-year spending review is likely to be the delay for a further year of the promised 'Fair Funding Review' and reform of the 'Business Rate Retention Scheme'. Redistribution could take place without a full spending review but it would be prudent if some extra funding could be put into the system to smooth-over changes. Additional funding would help to fund a 'damping' or transitional scheme.
- 6.4 In Derby, like most unitary, metropolitan and county councils, we are facing growing demand and cost pressures in adult social care and children's services. The Local Government Association (LGA) has calculated that during 2019/20 there will be a £1.9 billion shortfall in children's services funding and a £2.2 billion funding gap in adult social care services; this is supported nationally by the professional Association of Directors of Children's Services and Adult Social Services. Nationally there are increasing numbers of children being taken into care, and last year in Derby we experienced a 41% increase in care applications.
- 6.5 There is a growing and compelling evidence base across the adults and children's sector from the likes of the Association of Directors of Adults Social Services, the

Association for the Directors of Children's Services and the LGA about the sustained pressures in the sector, and there is a range of work underway, nationally and locally in Derby, to influence government thinking regarding sustainable levels of resourcing.

- 6.6 There have been a number of key reports published which highlight the scale of the challenges for local government children's and adults services. *Making Sense: Understanding the Drivers of Variation in Spend on Children's Services (2018)* a joint publication by the LGA and Newton Europe demonstrates the complexity of delivering children's services and the multitude of factors influencing spend, including the significant impact of levels of poverty and deprivation, accounting for 31% of the total variation in spends. Findings concluded that variation in spend is due to a variety of factors which are largely out of the control of individual local authorities and certainly outside of children's services, therefore some level of variation is inevitable.
- 6.7 The *All Party Parliamentary Report: Storing Up Trouble (2018)* found that children receive different levels of intervention and support depending on where they live, particularly in relation to access to early help and wider preventative services. The inquiry heard evidence that funding pressures are having a disproportionate impact on the most deprived areas. Increasing levels of demand and a reduction in resources has resulted in a depleted early help offer, meaning that families are dealing with increasingly complex challenges without the desired support and as a result, require more intensive support further down the line.
- 6.8 The Housing Communities and Local Government Select Committee (HCLG) have published its final report into funding for children's services. The report paints a picture of an underfunded system at breaking point, reliant on the goodwill of professionals. The report contains many references to ADCS's written evidence and to the oral evidence given by Stuart Gallimore Director of Children's Services East Sussex County Council.
- 6.9 The Committee's recommendations include:
- The 2019 Spending Review needs to reflect the increased demand and pressures on local authority children's services. At a minimum, core grant funding up until 2025 should increase by £3.1 billion to address short-term pressures;
 - In the longer term, a specific children's services funding formula to make the distribution of funding fairer is needed;
 - Where new initiatives or ways of working funded by the DfE's Innovation Programme have achieved success these initiatives should be systematically rolled out across the country with appropriate long-term support and resource;
 - Government departments should pool funding and expertise when designing additional funding pots. The application and administration of one-off grant funding should be reviewed by the end of the year to ensure unreasonable burdens are not placed on local authorities;
 - The government must announce a successor to the Troubled Families Programme in advance of the 2019 Spending Review to provide LAs with

certainty over long-term funding streams beyond 2020;

- The government should evaluate its process for understanding the financial burden of new statutory duties and consider how it could be made more accurate;
- The government should also provide funding to councils proportionate to the number of children within 'no recourse to public funds (NRPF) families that they support, potentially via the introduction of a day rate payment. The daily rate for unaccompanied asylum-seeking children should be increased;
- The government should report to the Committee by the end of the year on whether there is scope to reduce demand for care nationally, if not then local government must be appropriately funded;
- The DfE should publish information concerning variation in spend by December 2019 and consider standardising financial reporting to make comparisons easier;
- The government should give more consideration to its role in the residential care market in investment, sufficiency and commissioning terms. Greater regulation of the market to ensure that costs do not rise disproportionately and that there is appropriate competition may also be required;
- With regards to the workforce, the Committee recommends an increase in core funding to enable local authorities to ease the pressure facing social workers. The DfE should also seek to understand the pressures facing social workers and bring forward solutions by the end of the year and look at the creation of a national recruitment strategy. Investment in the wider workforce is also recommended.

6.10 National lobbying continues across the sector in regards to the funding shortfall in relation to children with special educational needs and disabilities. The government reformed special education provision in England back in 2014, replacing special needs statements with Education, Health and Care plans (EHCs), aiming to deliver a "simpler and more joined up system", from birth to age 25. The funding for these reforms though was no sufficient to meet the growing demands faced by Councils.

6.11 The DfE has launched a call for evidence to consider how the SEND and alternative provision financial arrangements in England could be improved to help local authorities, schools, colleges and other providers in supporting children and young people with special educational needs and disability and those who require alternative provision or are at risk of exclusion from school.

7 Derby City Council Local Government Finance Context

7.1 The Council's Medium Term Financial Strategy needs to be shaped by the national context but also by the need to respond to service demands from our communities at the local level, aligned to the Council Plan, coupled with aspirational, affordable developments and on-going maintenance through capital and revenue investment.

- 7.2 Emerging pressures will also need to be taken into account during the planning and budget setting process. For example, the increased costs of the A52 project and the Children's overspend position in 2018/19 which has negatively impacted on the Council's reserves position and will need reviewing and replenishing from a financial sustainability perspective.
- 7.3 In Derby we have a relatively limited ability to raise resources through local council tax when compared to other authorities. Council tax income is limited by the high proportion of low value dwellings where over 51 per cent of the Council's domestic properties fall into band A which is the lowest band and therefore the occupiers pay the lowest level of council tax charges.
- 7.4 The Council is subject to emerging financial pressures arising from changes in legislation and new areas of responsibility, including 'Better Care', the Care Act, and the Children and Social Work Act 2017. In some cases, the government allocates additional funding to the Council to support any 'new burdens', but this is not always the case or sufficient to meet statutory requirements. Financial pressures arising from these issues will therefore also be considered during the planning process.
- 7.5 Our Medium Term Financial Strategy also needs to take into account our ambitious improvements and maintenance programme through capital investment in order to stimulate growth and inward investment across the city.
- 7.6 There are well documented pressures outside of our control which are driving demand across adults and children's services and we are experiencing year on year demand for statutory services. Within adult services, the over 85s population is rising annually by 3%, coupled with the Council supporting more adults of working age with eligible social care needs.
- 7.7 In 2017/18 there was a 10% increase in the numbers of adults of working age with severe and chronic learning and/or physical disabilities supported by adult social care. By 2030, over one quarter of the adult population of Derby will be aged 65. In addition, Derby has the widest gap in life expectancy between the most and least deprived across the East Midlands.
- 7.8 We also have increased demand for early help and children's social care services, particularly the numbers of children subject to child protection plans, and latterly children coming into care. We have continued to see a rise in the numbers of children being admitted to care in 2018/19, rising by 14%, and have increasing numbers of children placed in external foster placements which are more costly than placing with our own foster carers.
- 7.9 Demand continues to rise in relation to support for children with special educational needs and disabilities. The government reformed special education provision in England back in 2014, the number of EHCPs in Derby rose by 12.6% from 2018 to 2019 compared to a national average of 10.7%. Our forward planning needs to reflect any improvement plans from our recent OFSTED Local Area Review of SEND services.

8. The Council Plan

- 8.1 The Council Plan is the Council's highest level strategic planning document, and sets out a vision of how we want the Council and the City to be, and how we will get there. It provides the framework of overarching priorities for planning and delivery at all levels of the organisation, and informs decision making and resource prioritisation through our Medium Term Financial Plan. The Council Plan drives what we focus upon and is an important element in raising the profile of the City, and defining the role of the Council as a leader and convenor of partnerships to achieve the vision.
- 8.2 The Council Plan for 2019 – 2023 was agreed by Cabinet on 12 June 2019 and is summarised below.



- 8.3 Our vision has been reframed into '*Derby – a caring and successful city in the heart of the Midlands, proud of its heritage and ambitious for the future*'. There are wider discussions taking place with partners and community leaders about the longer term vision for the city as a whole. The vision is underpinned by three overarching themes to guide the Council's work.
- 8.4 The first two themes also link to delivering the Derby Partnership goal of *closing the gap*, with particular focus on inclusive growth, social mobility and making sure everyone has the best opportunity to maximise their potential.
- 8.5 These activities are underpinned by our new core values which, put simply, reinforce that the Council, its councillors and officers are here for Derby.
- 8.6 Our Council Plan will align with the Medium Term Financial Plan, so that resources can be deployed to achieve the vision. Without this alignment, progress could be impeded, and financial decisions could be isolated from strategic planning.
- 8.7 The Medium Term Financial Plan also needs to reflect any increased costs associated with Cabinet's manifesto commitments. These will be built into the medium term financial planning process alongside any other emerging pressures for consideration.

9. Draft Medium Term Financial Plan – 2020/21 – 2022/23

- 9.1 An updated forecasted financial model over the planning period shows a worsening financial position to the overall position agreed by Council on 27 February 2019 and is set out at Appendix 1.
- 9.2 The figures included within this draft plan are based on the Council's initial forecasts based on early estimates and assumptions, and are included for planning purposes only. These figures will change as further information becomes available throughout the process. The Council will need to develop proposals to address the total savings targets to ensure a balanced, sustainable budget position is achieved.
- 9.3 The table below shows the latest draft Medium Term Financial Plan for 2020/21 to 2022/23. Further information is included at Appendix 1.

MTFP Forecast 2020/21 to 2022/23

MTFP – Year on Year Movements	2020/21 £m	2021/22 £m	2022/23 £m
Government Funding:			
Reduction in Government Funding	3.131	2.348	1.761
Business Rates Tax Base Reduction/Growth	(1.309)	(1.439)	(1.436)
Council Tax Base/Uplift Increases	(2.905)	(3.269)	(3.330)
Other Grants	2.396	1.386	(0.587)
Other Income from Fees and Charges	(0.708)	(0.730)	(0.752)
Collection Fund Deficit/(Surplus)	(5.659)	-	-
Total Movement in overall funding:	(5.054)	(1.704)	(4.344)
Budget Movements:			
Inflationary Pressures	4.207	4.303	4.402
Existing Pressures as part of 2019/20 to 2022/23 MTFP	0.888	2.412	0.579
Emerging New Pressures*	6.222	-	-
Total Budget Movements	11.317	6.715	4.981
Sum Required to Balance Budget	6.263	5.011	0.637
Existing Savings as part of 2019/20 to 2022/23 MTFP	(3.719)	(1.436)	(0.658)
Undeliverable Savings part of 2019/20 to 2022/23 MTFP	0.196	-	-
Proposed New Savings	-	-	-
Total Savings	(3.523)	(1.436)	(0.658)
Change of Use of Reserves	7.864	-	-

Current Budget Gap	10.604	3.575	(0.021)	14.158
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*The table below shows the latest emerging new pressures included in the above summary these are estimates and work is ongoing to finalise therefore assumptions may change:

Directorate	Description	2020/21
Corporate Resources	Employee Assistance Programme System – Occupational Health	0.065
Peoples	Children's Base Budget Pressure	4.400
Communities and Place	Garden Waste	0.250
Communities and Place	Dry Recyclables Contract Waste	1.257
Communities and Place	Additional Pressure for Museums Management fee	0.250
Total Emerging New Pressures		6.222

- 9.4 The latest position shows a current budget gap of £14.158m to 31 March 2023. The draft plan will continue to be updated to enable a balanced position for 2020/21 with options for future year budget gaps. The Medium Term Financial Model is a dynamic position and will change as we move forward through the budget planning process. The Model will therefore be regularly updated once themes have been explored, further funding information known and forecasted. Assumptions will be reported to Cabinet over the planning period.

10. Risk Planning

- 10.1 A critical element of the Medium Term Financial Strategy is to ensure that the financial consequences of risk are adequately reflected in the Council's finances.
- 10.2 As with any plan or forecast the risk of variances and uncertainties exists. Careful planning can reduce risk but the Council must be aware of the potential variations that can arise and have an identified strategy for dealing with resulting pressures. The risks to the Medium Term Financial Plan can effect in year or future years' budgets.
- 10.3 The Section 151 Officer reviews the appropriateness of reserve levels to mitigate risk in the Cabinet Report on the Robustness of Estimates and Adequacy of Reserves. Longer term planning risk and changes to future funding assumptions are continually reviewed and updated in the ongoing Medium Term Financial Plan.
- 10.4 Project Risk – there is a risk reflected in the current strategic register regarding the delivery of capital projects which is being mitigated through improved oversight by the Programme Management Office, implementation of a Gateway process (including greater challenge of business cases and financial assessments) and ongoing monitoring of deliverability confidence for key projects.

10.4 Funding Risks

Fair Funding Review – The Government is reviewing each council's need to spend on services, with a view to redistributing funding between councils. This has been delayed because of other priorities, including Brexit negotiations and there is a risk that suitable information for planning will not be available until the end of 2019. The review is in line with the move for Councils to retain more business rates and become less reliant on

Government grant. The assumptions in our current financial plan are based on previous year's reduction in grants with the assumption that any changes will come with transitional arrangements for funding. There may also be the need for some changes and transfer of responsibilities for services to be delivered.

Specific Grants – Revenue Support Grant has only been confirmed until 2019/20, and uncertainty remains over other specific grants. To try and mitigate this, the current plan reflects reductions in grants based on previous years' activities and known intelligence.

Business Rates – As the value of business rates retained in Derby is below the Government's formula assessment, the Council receives a 'top up' grant. Any revaluation of business rates and multiplier change will affect the total rates yield and therefore the amount retained. Business Rates is forecasted using the latest intelligence and past performance to mitigate this and the position is reported to cabinet quarterly for monitoring purposes.

Retained Business Rates – Volatility may result in lower levels of business rates than currently forecast, especially considering any unknown impacts of our Business because of Brexit. A further key risk area is ratepayer appeals against how much they are being charged, as they are unpredictable to forecast and can be backdated over several years. The Council does hold a provision for backdating successful appeals and statutory regulations for timing of recognising variations in business rates allows the Council to build these into our future Medium Term Financial Plan.

Adult Social Care - The publication of the Government's promised Green Paper has been delayed several times, it was originally due to be published in the summer of 2017. The latest position is that it will be published "at the earliest opportunity", although the Health and Social Care Secretary had previously said in January 2019 that he "certainly intend for that to happen before April 2019." The rationale for the Green Paper was to explore the issue of how social care is funded; the current Medium Term Financial Plan does not contain any assumptions on this and will be updated as appropriate.

10.5 Prior Year Risks

Savings Risk - The budget for 2019/20 requires the delivery of permanent budget savings of £7.183m to be delivered to bring the budget into balance. The risk of not delivering these savings is being monitored and reported to Cabinet. Risk must be mitigated by directors owning and delivering their savings commitments or alternatively identifying alternative delivery savings within appropriate timescales.

10.6 Cost Change Risk

General Inflation – The current Medium Term Financial Plan includes a range of inflation assumptions based on the latest intelligence and indicators. However, levels of inflation will continue to be monitored to assess the level of risk and how any such risks could be in the first instance, addressed within existing budgets through monthly monitoring and forecasting and managing spend or built into future iterations of the plan.

Energy and Fuel Price Increases – This area of inflation has historically been particularly volatile. Inflation on fuel has been relatively low; however there still remains the risk of unpredicted sudden price changes as a result of international events which will need to be addressed through managing existing budgets in the first instance then potentially built into future iterations of the plan.

Pension costs – The cost of pensions is reviewed on a cyclical basis. Any changes in legislative requirements or repayment terms to address the pension deficit could affect the plan.

Demand Led Services – The plan includes new pressures for demand led services, including Social Care demographic changes. These forecasts are based on official demographic statistics and local, national intelligence and will be refreshed accordingly. It is expected that in some instances this will be mitigated by further one off funding as well as service redesign until an appropriate funding approach is established by Government from for example – the "Green Paper" and the Fair Funding approach. Other demand led services will need to continue to manage budgets accordingly to militate against emerging pressures.

Treasury Management Risks - The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

Spending Risk - The Council needs to continue to operate an essential spend rule whereby spend must only be considered if absolutely necessary and not just because there is sufficient budget. This will potentially help mitigate any unforeseen pressures in current and future year budget allocations.

Project Risk – there is a risk reflected in the current strategic register regarding the delivery of capital projects which is being mitigated through improved oversight by the Programme Management Office, implementation of a Gateway process (including greater challenge of business cases and financial assessments) and ongoing monitoring of deliverability confidence for key projects.

11. **Consultation and indicative budget planning timetable**

Our financial planning to date has included:

April/May 2019

- Directors strategic afternoon – MTFP call to action
- Agree deliverables for each MTFP theme
- Discussion of Council Plan priorities with Cabinet

June

- Pressure identification and saving review
- MTFS agreed by CLT and discussed with Leadership
- Council Plan approved by Cabinet

July

- MTFS approved by Cabinet
- Review of service plan priorities with review / challenge by strategic directors
- Consultation with Cabinet on pressures / savings

August/September

- Further development of Budget proposals
- Priorities agreed by CLT / Cabinet
- Development of consultation document

- 11.1 To ensure that the Council can prepare a balanced budget position in line with statutory deadlines, a series of meetings will take place throughout the year. These meetings will focus on the development of the strategic themes, scrutiny of budgets and budget proposals to agree development and finalisation of savings plans to close any budget gap.
- 11.2 The budget proposals will be communicated for consultation to the public on the Council's website as well as to other partners and the business community before the final recommendations to Council Cabinet.
- 11.3 The budget proposals will be considered by the Corporate Leadership Team and Cabinet Portfolio holders before Council Cabinet recommends the budget and Council Tax to Full Council in February 2020.

12 Early Progression of Savings by directorate

- 12.1 The budget setting report that was agreed at 27 March Full Council outlined indicative future savings required for each directorate in order to plan for the requirements of each directorate in the medium term.
- 12.2 **Corporate Resources Directorate**
- 12.3 Appendix 4 outlines Corporate Resources savings of £0.209m that are operational in nature and do not require consultation to commence. In most instances they are a full year effect of a 2019/20 saving. Early approval of these savings is requested to give certainty to the directorate and enable savings delivery.
- 12.4 Appendix 4 outlines the savings of £0.209m, £0.159m of the savings are a continuation of 2019/20 savings and £0.050m of the savings are savings that are new and commence in 2020/21.
- 12.5 **Peoples Directorate**
- 12.6 Appendix 5 outlines Peoples savings of £0.952m. Early approval of these savings is requested to give certainty to the directorate and enable savings delivery.
- 12.7 £0.852m of this saving relates to the Troubled Families programme coming to an end as the grant ends. Unless there is an indication from the Department for Education that the programme will be extended the programme will end since it is not financially viable to mainstream. This proposal would see a reduction of 8 full time equivalent posts.

12.8 £0.100m of this saving relates to efficiencies within the Carelink service.

Public/stakeholder engagement

12.1 The Council engages service directors, strategic directors, members and the public on the medium term financial strategy and the budget proposals on a cyclical basis.

Other options

13.1 There is a statutory requirement to set a balanced budget for 2019/20. A range of options to achieve this will be considered during the budget planning process.

Financial and value for money issues

14.1 Outlined in the main body of the report.

Legal implications

15.1 The Council is required to set balanced revenue and capital budgets for 2020/21 by March 2020. Under the Prudential Code established by the Local Government Act 2003, it is also required to demonstrate the affordability of its revenue budget for the two subsequent financial years, after taking into account its plans for capital expenditure.

Other significant implications

16.1 **Personnel** - Any proposal which may affect staff if implemented of final budget proposals in 2020/21 would be subject to appropriate consultation with staff and trade unions.

16.2 **Equalities Impact** - Appropriate Equality impact assessments will be carried out with regard to the final budget proposals.

16.3 **Risk Management and Safeguarding** - Risks will be assessed throughout the planning process and where possible, reasonable mitigation will be made. When the budget is set the financial risk will be monitored throughout the year and reported to cabinet on a quarterly basis included in the Forecast out-turn report. The Council has reserves that if required can be used to manage risks.

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal	Olu Idowu	
Finance	Toni Nash – Head of Corporate Finance	23 June 2019
Service Director(s)	Don McLure, Strategic Director of Corporate Resources	23 June 2019
Report sponsor	Don McLure, Strategic Director of Corporate Resources	23 June 2019
Other(s)		

For more information contact:	Toni Nash, Head of Finance, Corporate Resources Tel: 01332 641491 Email: toni.nash@derby.gov.uk
List of appendices:	Appendix 1 – Draft MTFP 2020/21 – 2022/23 Appendix 2 – Capitalisations Policy Appendix 3 – Minimum Revenue Provision Statement 2019/20 Appendix 4 – Corporate Resources Savings Appendix 5 – Peoples Savings

Appendix 1

Derby City Council Draft Medium Term Financial Three Year Plan 2020/21 - 2022/23 - Year on Year Movement

	2020/21 £m	2021/22 £m	2022/23 £m	
Government Funding				
Reduction in Funding - from 2020/21 assumed 25% reduction year on year pending move to Fair Funding Review	3.131	2.348	1.761	
Reduction in New Homes Bonus	0.617	(0.005)	0.101	
Reduction in Education Services Grant	0.205	-	-	
Reduction in Housing Benefit Admin Grant	0.088	0.081	-	
Reduction in Local Reform and Community Voices	0.012	-	-	
Reduction in Independent Living Fund	0.032	-	-	
Increase in Improved Better Care Fund (IBCF1) - assumed to continue at 19/20 allocation	-	-	-	
Reduction in Improved Better Care Fund (IBCF2) - assumed to continue at 19/20 allocation	-	-	-	
Removal of Troubled Families Grant - ending 31 March 2020	0.960	-	-	
Adult Social Grant Funding - One off - assumed £2m additional one off funding for 20/21	1.109	2.000		
Business Rates S31 Funding	(0.155)	(0.170)	(0.170)	
Business Rates Top up/(Tariff)	(0.472)	(0.520)	(0.518)	
Total Government Funding Adjustments	5.527	3.734	1.174	
Local Funding Sources				
Council Tax - 1.99% assumed year on year	(1.956)	(2.019)	(2.084)	
Council Tax Base Uplift	(0.949)	(1.250)	(1.246)	
Business Rates Tax Base Growth	(1.309)	(1.439)	(1.436)	
Collection Fund Adjustment	(5.659)	-	-	
Fees and Charges	(0.708)	(0.730)	(0.752)	
Total Local Funding Adjustments	(10.581)	(5.438)	(5.518)	
Estimated Total Movement in Overall Funding	(5.054)	(1.704)	(4.344)	
Inflation Assumptions				
Pay Inflation - 2% assumed year on year	2.186	2.229	2.274	
Adults and Childrens Social Care inflation	1.612	1.650	1.688	
Energy and Supplies & Services Inflation	0.409	0.424	0.440	
Budget Pressures				
Existing Pressures as part of 2019/20 to 2022/23 MTFP	0.888	2.412	0.579	
Emerging New Pressures	6.222	-	-	
Total Pressures	11.317	6.715	4.981	
Sum Required to Balance Budget	6.263	5.011	0.637	
Existing Savings as part of 2019/20 to 2022/23 MTFP	(3.719)	(1.436)	(0.658)	
Undeliverable Savings part of 2019/20 to 2022/23 MTFP	0.196	-	-	
Proposed New Savings	-	-	-	
Reserves:				
2019/20 MTFP use of reserves movement	7.864	-	-	
Current Budget Gap	10.604	3.575	(0.021)	Total
				14.158

Appendix 2



FINANCE PROCEDURE NOTES

Policy

Capitalisation Policy

May
2019

CAPITALISATION POLICY

1. INTRODUCTION

Expenditure for capital purposes are deemed as such by virtue of Section 40 of the 1989 Local Government and Housing Act updated in the Local Government Act 2003.

Capital expenditure is expenditure on fixed assets that will produce benefits for several years. It is expenditure which adds to and not merely maintains the value of an existing fixed asset.

Tangible Fixed Assets

Are defined as 'assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes on a continuing basis in the reporting entity's activities'.

(Source: FRS15 Tangible Fixed Assets)

Tangible assets would broadly consist of expenditure on the following:

The acquisition of land, buildings, plant, equipment and vehicles.

The enhancement (as defined in section 3) of land, roads buildings and other structures.

The construction of roads and buildings

Investment properties

Community Assets

For the purposes of clarification expenditure on roads and other such like structure are known as infrastructure assets within the fixed asset register.

Intangible Fixed Assets

Are those assets defined as 'Non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights.

An identifiable asset is defined by companies' legislation as one that can be disposed of separately without disposing of a business of the entity.

In the context of an intangible asset, control is normally secured by legal rights: a franchise or licence grants the entity access to the benefits for a fixed period; a patent or trademark restricts the access of others'.

(Source: FRS10 Intangible Fixed Assets)

2. ROLE OF AUDITORS

The role of the external auditor is to obtain assurance that the financial statements, including fixed assets, are free from material misstatement. In order to meet this requirement the auditors will carry out checks to ensure that the Council has taken steps to confirm the following:

- Verification of actual existence of fixed assets
- Verification of additions/disposals
- Verification of valuations undertaken and entered into the register
- Valuation of all assets is up to date and accurate
- Capitalisation process is correctly applied
- Depreciation is calculated accurately and in accordance with policy
- Revaluations and impairments are fully supported and accurately reflected
- Additions are accounted for, together with the legal rights verifying ownership rights
- Disposals are adequately supported
- Assurance and testing of impairment reviews
- Testing of actual expenditure for timeliness (within the correct financial year), expenditure charged is true capital expenditure
- Adequate and correct use of all capital financing applied
- Proper accounting practises have been followed

3. CAPITALISATION POLICY

The principle issues in accounting for property plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

An item of property plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

The cost of an item of property plant and equipment comprises:

- (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- (c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Examples of directly attributable costs are:

- (a) costs of employee benefits arising directly from the construction or acquisition of the item of property, plant and equipment;
 - (b) costs of site preparation;
 - (c) initial delivery and handling costs;
 - (d) installation and assembly costs;
 - (e) costs of testing whether the asset is functioning properly;
 - (f) professional fees.
- (International Financial Reporting Standards – IAS 16)

All expenditure on the acquisition, creation or enhancement of tangible fixed assets should be capitalised on an accruals basis. Expenditure on the acquisition of a tangible asset, or expenditure which adds to, and not merely maintains, the value of an existing asset should be capitalised and be capitalised as a tangible fixed asset, provided that it yields benefits to the authority and the services it provides are for a period of more than one year.

Expenditure that should be capitalised will include expenditure on the:

- Acquisition, reclamation, enhancement or laying out of land
- Acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures
- Acquisition, installation or replacement of moveable or immoveable plant, machinery, apparatus, vehicles and vessels.

Enhancement means the carrying out of works which are intended to:

- Lengthen substantially the useful life of the asset, or
- Increase substantially the market value of the asset, or
- Increase substantially the extent to which the asset can or will be used for the purposes of or in conjunction with the functions of the local authority concerned.

Under this definition, improvement works and structural repairs should be capitalised, whereas expenditure to ensure that the fixed asset maintains its previously assessed standard of performance should be recognised in the revenue account as it is incurred.

Assets acquired on terms meeting the definition of a finance lease should be capitalised and included together with a liability to pay future rentals.

Where a fixed asset is acquired for other than a cash consideration or where a payment is deferred, the asset should be recognised and included in the Balance Sheet at fair value.

(IFRS IAS16)

A particular item of expenditure could qualify as an enhancement or be categorised as repairs and maintenance, depending on the particular context within which work is being carried out. For example, the installation of double glazing might be enhancement if it replaces single glazing, but maintenance if it replaces double glazing that has become worn out.

Administration and general overhead costs are excluded. Costs will also be ineligible to the extent that they relate to activity that takes place before the intention to acquire or construct a particular fixed asset has been confirmed. Examples include the cost of option appraisals and feasibility studies that do not contribute to the scoping of the asset ultimately acquired.

Assets under construction are normally carried at accumulated historical cost whilst construction is taking place. This type of asset is exempt from depreciation, but in exceptional cases, impairment losses might need to be charged during the construction period. Once the assets become operational the assets will need to be valued in accordance with the basis relevant to that particular class of asset if there is evidence that historical cost is not a reliable figure for the value added to the authority. The valuation may result in a figure lower than accumulated historical cost. If this is the case then material differences will need to be analysed to identify amounts that might be attributed to:

- Items of expenditure that should not be treated as capital – these should be written off to revenue
- Impairment losses that are clearly due to the consumption of economic benefits, such as damage caused during the construction period or pilferage – these should be recognised in revenue accounts as impairment losses (but reversed out to the CAA in the statement of movement on the general fund).
- The balance or difference – impairment loss not clearly identifiable to the consumption of economic benefits will also require the same treatment, as there will be no revaluation gain in the revaluation reserve against which to write off any loss.

(IFRS IAS16 together with Cipfa Code of Practise)

Plant and Equipment

Plant and equipment relating to a capital project should be coded and classed separately from the capital works. This will therefore not only include vehicles plant and equipment but such things as lifts, filtration systems for swimming pools, gym equipment as part of a fitness suite refurbishment, white boards as part of a classroom refurbishment etc. Any such item should be coded to an equipment detail code rather than the capital works code. A departmental asset register should be kept of all plant and equipment which each asset labelled with a relevant asset number and updated with disposals, obsolescence and purchases.

Capitalisation Directions

Under section 16(2)(b) of the Local Government Act 2003 the Secretary of State may determine that an item of expenditure (normally revenue) e.g. equal pay compensation can be capitalised under this direction and financed through borrowing or capital receipts. Normally a request is submitted to the DCLG who will assess all bids from all authorities and will then notify the authority if the request for capitalisation has been approved. The capital team will require

a copy of the approval letter before the expenditure can be included in the capital programme.

At the end of this appendix is a list of typical troublesome items of expenditure and their treatment.

DE MINIMIS LEVELS

Single items of Expenditure

The following de minimis levels are to be used (i.e. no expenditure below these levels will be capitalised) for individual items of expenditure:

Acquisition improvement of land and buildings	Nil
Construction and improvement of roads	Nil
Vehicles	£10,000
Plant and equipment	£10,000 *
PCs	£10,000*
Purchase of software licences	Nil**

* Where individual items of furniture and equipment or PCs costing less than £10,000 are being purchased as part of a large capital scheme these can be capitalised.

** Where purchased as part of computer equipment that is also being capitalised.

Grouped items of Expenditure

In addition to individual items of expenditure small items of similar equipment may be bought in bulk to provide economies of scale and in order to undertake a specific programme of works e.g. smoke alarms which individually would be below the de minimis limit and would therefore not be capitalised but in bulk to meet fire regulations could be capitalised. Therefore the following de minimis limits for grouped assets would apply:

A minimum single item cost £50 but cumulatively would add up to £10,000 or above.

The only reason for not applying the agreed de minimis level would be if the conditions relating to specific capital grants were different.

4. CAPITAL SCHEME APPROVALS

New Schemes

New major capital schemes will require approval through the Gateway process before it can be added to the capital programme. The capital programme will be amended through the quarterly monitoring report or if the approval is

required urgently through the Financial Matters report. Financial procedure rules dictate that approval is sought by Council Cabinet for a new scheme to be added to the capital programme.

Additional schemes added to the capital programme during the course of the year require approval of Full Council where the level of either planned total borrowing or unsupported borrowing will increase over the total level previously approved by the Council, either in the current year or in total within its medium term financial plans, once any other changes to the approved capital programme are also taken into account.

Approval of Council Cabinet is required where:

- the scheme is being funded from revenue or capital reserves which have not previously been earmarked for specific uses consistent with the purpose of the capital scheme.
- Any new capital scheme(s) are being funded as a result of deleting existing capital scheme(s)
- Schemes are funded through S106 to gain approval for the S106 usage.
- Schemes are funded through additional borrowing, which requires Council approval.
- Schemes are added to the capital programme during the course of the year,
- The virement of funding to meet such programme variations also requires Cabinet approval.

Subject to funding being available, approval to vary the cost and phasing of capital schemes within the overall capital programme should be obtained from Council Cabinet where:

- For schemes up to £5m:
 - the scheme has varied by over £250,000; or
 - the scheme has varied by 10% or £50,000, whichever is the greater, unless the varied amount can be contained within the capital programme area and has the approval of the relevant Cabinet portfolio holder.
- For schemes over £5m
 - the scheme has varied by over 5%

5. Procurement Process

The council is governed by the Constitution; within this are the Rules of Procedure and Contract Procedure Rules. The constitution can be found at <http://cmis.derby.gov.uk/cm5/TheConstitution.aspx>. Within the contract procedure rules are the requirements for obtaining quotes and tenders, the following is an extract setting out the procedures to be followed when going out to tender.

COMPETITION REQUIREMENTS

The nature of the procurement process to be undertaken will depend on the estimated total value of the contract.

(See Rule 16.1)

Where the estimated total value of the proposed contract is within the values of the first column the award procedure in the second column must be followed, unless one of the alternative methods to Tendering is chosen (See Section 4 – Alternatives to Tendering) or a waiver is obtained (See Rule 57).

TOTAL VALUE	AWARD PROCEDURE
Below £5,000	* Must use existing relevant Corporate Contract if there is one and if not get at least one Quote and then place an official order or use Purchasing (VISA) Card. See Purchasing Card Procedures on iDerby. * Good practice to get three Quotes and include at least one local supplier if possible.
From £5,000 up to £25,000	Must, before placing an order get at least three written Quotes* (using standard form quotation on iDerby or other form of quotation approved by the Head of Procurement). At least one quotation should be requested from a local supplier where possible. The Procurement Unit will advise on local suppliers on request. * Directors may waive this requirement but must inform the Head of Procurement in writing of their reasons. (See Rule 57.14)
From £25,000 up to the EU threshold	Must Tender by Public notice inviting Tenders. ("Open Procedure"; see Rule 20) NB. The facility to use the restricted procedure for below EU threshold procurements has been withdrawn under the Public Procurement Regulations 2015 The Public Procurement Regulations

	2015 mandate the advertising of contract opportunities over £25,000 using the 'Contracts Finder' website.
Above EU Threshold	(See Rule 15) Must tender in accordance with EU Procedures. The Procurement Unit must be involved in the process and advice sought.

See Section 4 (14) for use of Framework Agreements.

6. Capital Asset Lives for Prudential Borrowing and the Asset Register

The Prudential Code regulations meant that it was necessary to ensure that asset lives for depreciation purposes are appropriate for use when determining a charge per asset for principal when using prudential borrowing to fund the purchase/conversion of an asset. The following sets out the convention to use for each type of asset when calculating borrowing costs:

Type of Asset	Life	Comments
Land and Buildings	50 years	All substantial new buildings including community centres, the land element will have an indefinite asset life.
Council Dwellings	60 years	
Council dwelling component lives		
Roofs	60 Years	
Electrical System	25 Years	
Heating Boilers	15 Years	
Heating distribution	30 Years	
Windows & Doors	30 Years	
Kitchens	20 Years	
Bathrooms	25 Years	
Bathrooms Electrical Showers	13 Years	
Infrastructure	40 years	E.g. new roads, cycle ways, paths, flood defences, new surface car parks
Major Contracts	Tied to length of contract	E.g. Waste 25 years
Community Assets	10 - 15 years	Excludes new builds, includes Parks, play areas, landscaping, paving/path renewal, signage, museum assets, civic regalia. The land element of these

		assets will have an indefinite life.
Furniture/ other general equipment	10 - 20 years	All new equipment is reviewed on an individual basis to determine asset life.
Vehicles	7 years	
IT/software licences	3 years	
Plant/equipment	5 years	E.g. mowers

The asset lives have been agreed as appropriate and reasonable by the valuation team in Estates.

7. Capitalisation of Non Enhancing Capital Expenditure

Non enhancing capital expenditure occurs when an asset has been brought back up to standard without actually improving what was originally there in the first place but just replacing the necessary 'impaired' parts of a building. The resulting expenditure will be added as an addition to the fixed asset but will be taken out as an impairment being non enhancing capital expenditure.

8. Revenue Expenditure Funded From Capital Under Statute

Legislation allows some items to be funded from capital resources that under IFRS and normal accounting practice would be charged to Surplus or Deficit on the provision of Services. The accounting arrangements for these items are as follows:

8.1 Revenue expenditure funded from capital under statute shall be accounted for in accordance with proper practice under the IFRS code, and effect shall be given to the statutory requirements by making the adjustments set out below. No IFRS or IAS deals with these items as they are a statutory departure from normal accounting practice.

8.2 Legislation in England allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the balance sheet as a fixed asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the authority, and amounts directed under section 16(2) of part 1 of the Local Government Act 2003.

8.3 Such expenditure shall be charged to Surplus or Deficit on the Provision of Services in accordance with the general provisions of the Code. Any statutory provision that allows capital resources to meet the expenditure shall be accounted for by debiting the capital adjustment account and crediting the general fund balance and showing as a reconciling item in the movement in reserves statement.

(IFRCodeofPractise10/11)

Capital or Revenue Expenditure

Item of Expenditure	Capital or Revenue?
Feasibility Studies	Revenue. All costs incurred whilst an authority is deliberating on the problems it wishes to resolve by having a new building, scoping potential solutions and choosing between them and assessing whether resources will be available to finance a project will normally be revenue. This is because, until a specific solution has been decided upon, costs cannot be directly attributable to bringing an asset into working condition.
Demolition of existing building	Capital. Demolition would usually be an act of destruction that would be the antithesis of the creation of a fixed asset. However, if the costs are incurred as a necessary step in preparing a site for a new building, it can be argued that they are an integral part of the new works.
Costs of buying out sitting tenants of existing building	Capital. Where a scheme requires compulsory purchase orders, buyouts of leaseholds of tenants or other costs relating to the removal of restrictions that would prevent the scheme progressing, consideration may be given to capitalising costs incurred essentially in securing the removal (such as relocation payments).
Costs of renting alternative accommodation for authority staff during building works	Revenue. All costs incurred in carrying out the authority's regular business whilst construction is under way (no matter how great the cost of the inconvenience caused) will be revenue as they make no direct contribution of any value to the new building. Such costs might include removal costs from the old office to the temporary accommodation, and fitting out costs such as partitions and carpets.
Site security during construction	Revenue. This activity protects the investment made in the building during construction but does not enhance it. Other similar costs that would fall to revenue would be void rates on the old building prior to demolition.
Professional fees	Capital. To the extent that the services provided make a contribution to the physical fabric of the new property (e.g. architecture design) or the work required to bring the property into working condition for its intended use (e.g. legal advice in the preparation of building contracts)
Furniture and Fittings	Capital. Items that are needed to bring an asset into working condition for its intended use are often capitalised as part of the overall cost of the property, even if such items would normally be below the authority's de minimis limit. The downside of such a treatment is that it might be harder to justify future replacement of furniture and fittings as being capital, as initial capitalisation will have been integrated into the overall asset and might not be identifiable as a component. Individual items can, of course, be considered for capitalisation as assets in their own right.

Rectification of design faults	Capital. Rectification work will take an asset closer to being in working condition. However, the expenditure previously incurred on the defective work would need to be written off to revenue.
Training and familiarisation of staff in operation of new building	Revenue. The building will be regarded as being in working condition, even if there is no one competent at the authority actually to operate it. Training and associated costs do not therefore qualify for capitalisation.
Borrowing costs incurred whilst new building was under construction	Capital. Any interest payable on expenditure incurred before the asset is in working condition can be added to the cost of the fixed asset. Any financing costs incurred after that date will be a charge to revenue.
Apportionment of costs of capital team and internal audit	Revenue. These costs are generally incurred to make sure the project runs as intended, rather than enhancing it.
Health and Safety Expenditure	Capital. IAS 16 does allow capitalisation of plant and equipment acquired for safety reasons, even though the items will not themselves generate future economic benefits (or service potential) and thereby fail the recognition tests for fixed assets. This is provided that they are needed to enable other property, plant and equipment to be productive in accordance with the law. This rule only applies to physical assets, and not to other costs such as inspections and training
Painting cycle	Revenue. Painting work will almost always be a maintenance cost and chargeable to revenue, as it will usually be a basic presumption in assessing the level of performance of an asset and its expected life that it will have effective paint coverage. (initial painting work would, though, normally be capitalised as part of preparing an asset for use).
Window replacement	Capital. If the windows were being upgraded from single to double glazing enhancement could be considered as the improved energy efficiency and extension to asset life as a result of the prevention of condensation increase the economic benefits and service potential provided by the asset. However repairs to broken or worn out windows would normally be charged to revenue.

Minimum Revenue Provision Statement 2019/20

An underpinning principle of the local authority financial system is that all capital expenditure has to be financed either from capital receipts, capital grants (or other contributions) or eventually from revenue. The amount charged to the revenue budget for the capital expenditure is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing Communities and Local Government (MHCLG) '*Guidance on Minimum Revenue Provision*'. The latest guidance was issued in February 2018.

The broad aim of the MHCLG Guidance is to ensure a prudent provision is made from revenue over time to cover the total amount of capital expenditure needed to be met from revenue. A prudent provision is considered to be where the period over which MRP is charged is aligned to the period over which the capital expenditure provides benefits.

The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. However the guidance gives flexibility in how MRP is calculated, providing the calculation is 'prudent'.

The following policy included in the statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

Minimum Revenue Provision Policy

- For capital expenditure incurred before 1st April 2008 and for supported capital expenditure incurred on or after that date, MRP will be determined by charging an appropriate annuity rate over the remaining life in respect of that expenditure.
- For unsupported capital expenditure incurred after 31st March 2008 MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments or as the principal repayment on an annuity basis, starting in the year after the asset becomes operational. For annuity basis the interest rate charged is 4.3% for unsupported capital expenditure incurred after 31st March 2017.

MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over the number of years specified in the CLG Guidance.

- For assets acquired by finance leases or Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- For the transferred debt from Derbyshire County Council an appropriate annuity basis will be used over 50 years.
- Where loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.
- Where loans are accepted as funding for a specific project, the MRP charged will be equal the loan principal repayments.
- Voluntary MRP may be made at the discretion of the Section 151 Officer.
- No MRP will be charged in respect of assets held within the Housing Revenue Account. Capital expenditure incurred during 2019/20 to be met from revenue will not be subject to a MRP charge until 2020/21 or the year after the asset becomes operational.

<u>Corporate Resources Savings</u>					Appendix 4
Service	Saving Proposal Title	Brief Saving Description	19/20 Agreed Saving £m	20/21 Proposed Saving £m	Estimated 20/21 FTE
<u>Continuation of 2019/20 Approved Savings</u>					
Business Support	Staffing Efficiencies	Staffing Efficiencies within Business Support	(0.118)	(0.062)	2.0
Business Support	Additional Income from Department of Work and Pensions and Lister House	Providing Document Management Support	(0.005)	(0.005)	0.0
Human Resources and Organisational Development	Organisational Development - Reduction in Future Service	Staffing efficiencies	(0.022)	(0.022)	0.5
Property	Staffing Efficiencies	Using functionality of the Strategic Asset Management system to enable staffing efficiencies	(0.025)	(0.025)	0.5
Property	Buildings Energy Conservation	Develop Buildings Energy Management Improvement Plan, accessing Salix and other funds to achieve energy saving efficiency of our core buildings. An initial plan to improve the top 10 high consumption or poor energy rating buildings	(0.025)	(0.025)	0.0
Property	Disposal of small land holdings	Identification and sale of small pieces of land to generate an ongoing revenue saving - this is 'one off' only for 3 years (£120k in total) as based on number of small land holdings	(0.020)	(0.020)	0.0
<u>Further Savings</u>					
Business Support	Multi-Functional Device reduction & cost/copy savings	Reduction in Print Management Contract	0.000	(0.050)	0.0
TOTAL			(0.215)	(0.209)	3.0

Peoples Savings			Appendix 5		
Service	Saving Proposal Title	Brief Saving Description	19/20 Agreed Saving £m	20/21 Proposed Saving £m	Estimated 20/21 FTE
Continuation of 2019/20 Approved Savings					
Adult	Efficiencies from review of Carelink Service	Restructure Carelink to meet the demands of the service and customers	-	(0.100)	-
Childrens	Removal of Base Budget for Troubled Families corresponding Funding ending 19/10	Troubled Families programme comes to an end as the grant ends	-	(0.852)	8.0
TOTAL			-	(0.952)	8.0