Cabinet

11 February 2015

General Fund Medium Term Financial Plan 2015/16 to 2017/18, Revenue and Capital Budget 2015/16 and 2015/16 Council House and Garage Rent Proposals

Key Decision Number Corp/R/14/02

Report of Corporate Management Team

Joint Report of Don McLure, Corporate Director Resources and Lorraine O'Donnell, Assistant Chief Executive

Councillor Alan Napier, Cabinet Portfolio Holder for Finance
Councillor Simon Henig, Leader of the Council

Purpose of the Report

1 To provide comprehensive financial information to enable Cabinet to agree the 2015/16 balanced revenue budget, an outline General Fund Medium Term Financial Plan (MTFP (5)) for 2015/16 to 2017/18 and a fully funded capital programme for recommendation to the County Council meeting on 25 February 2015.

Executive Summary

2 Looking back to the 2010 Comprehensive Spending Review (CSR), the Government outlined funding reductions of 28% that Local Government would need to face to contribute to eradicating the national budget deficit by the end of March 2015. The initial strategy for eradicating the nation deficit was for public expenditure reductions to finance 80% of the plan with 20% coming from tax increases. Local Government faced the highest reductions in spending across the public sector.

3 The CSR 2010 forecasts have not been met by the Government and the Chancellor of the Exchequer's December 2014 Autumn Statement confirmed that the national budget deficit would not now be eradicated until 2018/19 with reductions in public expenditure continuing until 2019/20 to enable a forecast national budget surplus of £23bn to be realised. The national budget deficit at the end of 2014/15 is forecast to be £91bn, a reduction of less than 50% since 2011/12. Government funding reductions for local government are now forecast to be 60%, a doubling of the figure first forecast after the 2010 CSR.

4 It is apparent therefore that the financial landscape for Local Authorities will continue to be extremely challenging until at least 2018/19 and possibly

2019/20, resulting in the longest period of austerity in modern times. The challenges faced are exacerbated in Durham for a range of reasons:-

(i) Government grant reductions are not being evenly distributed across the country, as evidenced by the Government's own Spending Power figures. Whilst deprived areas like Durham continue to experience Spending Power reductions above the national average, in some more affluent areas they are actually receiving spending power increases.

(ii) The Government's methodology for funding local authorities is inextricably linked to the performance of the local economy in the local authority areas via New Homes Bonus Funding arrangements, Business Rate Retention and Local Council Tax Reduction Schemes. Disappointingly, the link to a 'Needs Assessment' is no longer a key determinant of local authority funding.

(iii) Demand for services and support from local authorities in areas like Durham is increasing with Welfare Reforms continuing to have a significant impact on communities in more deprived areas.

5 Overall, it is forecast that the Council will need to save £225m over the 2011 to 2018 period. This figure is forecast to exceed £250m in 2018/19 based on the forecast public sector funding reductions outlined in the Government's December 2014 Autumn Statement.

6 A sum of £136.9m of savings will have been delivered by the end of 2014/15. Forecasted savings over the MTFP (5) period 2015/16 to 2017/18 of £87.6m are required, with the 2015/16 budget requiring savings of £16.3m to achieve a balanced budget.

7 The Council has consulted extensively with the public as part of the MTFP development. During autumn 2013 a major exercise was carried out which involved over 3,800 people who provided a clear steer in which services they felt should be prioritised for larger or smaller reductions. A refresh of this exercise was carried out in autumn 2014 with the public and partner agencies. Over 1,400 responses were received and the majority indicated that the priorities established in 2013 were still appropriate. Respondents also highlighted general concern at the scale of the reductions facing the Council and supported the approach to pursue innovative solutions to maintaining services through the Durham Ask.

8 The Council's MTFP strategy for the last four years has been to protect front line services as far as possible and the 2015/16 proposals are in line with this strategy. This strategy is becoming increasingly difficult to maintain over time and the likelihood is that front line services will become increasingly impacted over the next three or four years. This report summarises how the main proposals are in line with the Council's overall strategy and have been shaped by residents' and stakeholders' views with a high level analysis of the equalities impact.

9 In line with the MTFP (4), detailed savings proposals are only included for 2015/16, the first year of MTFP (5). This is due to the significant uncertainty in relation to finance settlements beyond 2015/16. The Local Government Finance Settlement published in December only provided details for 2015/16. It is expected that longer term finance settlements may be received in the future. The forecasts included in MTFP (5) have been extrapolated from the Chancellor's "Red Book" forecasts for the public finances.

10 In MTFP (1) 2011/12 to 2014/15, the Council forecast that there would be a reduction of 1,950 posts by the end of 2014/15. It is currently forecast that after the realisation of the 2015/16 savings plans the level of post reductions will still be around 1,950.

11 In the setting of Council Tax levels for 2015/16, consideration has been given to the significant financial pressures facing the Council. The Government have offered a Council Tax Freeze Grant for 2015/16, equivalent to a 1% Council Tax increase. The calculation of the Council Tax Freeze Grant utilises a higher Council tax base than the current level. The calculation utilises the Council tax base that was in place prior to the implementation of the Local Council Tax Reduction Scheme in 2013/14. It is forecast that this would generate a Council Tax Freeze Grant of £2.180m for 2015/16. MTFP (5) planning however has been based upon a 1.99% Council Tax increase, which is below the confirmed 2% Council Tax Referendum Limit. A 1.99% Council Tax increase will generate additional Council Tax income of £3.398m in 2015/16 which is £1.218m more than the freeze grant option. This report recommends a 1.99% Council Tax increase in the Council's Band D Council Tax in 2015/16 which would result in an average increase of 78 pence a week for all Council Tax payers and an increase of 33 pence a week for the majority of Council tax payers in County Durham, who live in the lowest value properties (Band A).

Background

12 The Council's MTFP (5) is aligned to the Council plan, which sets out the Council's strategic service priorities and articulates the financial implications and impacts over a three year budgeting period, 2015/16 to 2017/18.

13 The MTFP provides a comprehensive resource envelope to allow the Council to translate the Council Plan into a financial framework that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes.

14 Looking back to MTFP (1) the following drivers for the Council's financial strategy were agreed by Cabinet on 28 June 2010, which still underpin the strategy in MTFP (5):-

(i) To set a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in Council Tax.

(ii) To fund agreed priorities, ensuring that service and financial planning is fully aligned with the Council Plan.

(iii) To deliver a programme of planned service reviews designed to keep reductions to front line service to a minimum.

(iv) To strengthen the Council's financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery outcomes.

(v) To ensure the Council can continue to demonstrate value for money in the delivery of its priorities.

Local Government Finance Settlement

15 The final Local Government Finance Settlement was published on 3 February 2015 and only includes grant allocations for 2015/16, with no indicative figures provided for later years.

16 The Government has made a significant change following the consultation responses from local authorities in relation to the provisional Settlement where local authorities were very unhappy about the withdrawal of the Local Welfare Provision Grant and continuing pressures in relation to Social Care. In the Final Settlement the Government has announced an additional £74m nationally to address these concerns with Durham receiving additional Revenue Support Grant (RSG) of £0.966m. This additional £0.966m compares to the current Local Welfare Provision Grant received by the Council in 2014/15 of £1.9m.

17 The Council Tax Referendum Limit is confirmed at 2%. The Government has also confirmed that a 1% Council Tax Freeze Grant will be paid to any authority which freezes Council Tax in 2015/16.

18 The settlement includes details of core grants e.g. RSG and Business Rates 'Top Up' Grant. The table below highlights the 2015/16 reduction in the Settlement Funding Assessment (SFA). It is important to note that the Business Rates figure below is a 'notional' figure published by the Government.

Table 1 – 2015/16 Settlement Funding Assessment

Funding Stream	**2014/15**	**2015/16**	**Variance**	
	£m	**£m**	**£m**	**%**
Revenue Support Grant	138.710	100.240	(38.470)	(27.7)
Business Rates	54.045	55.050	1.005	1.9
Top Up Grant	59.357	60.491	1.134	1.9
SFA	**252.112**	**215.781**	**(36.331)**	**(14.4)**

19 The table above highlights that the SFA has reduced by 14.4% in 2015/16. In addition to the above 'core' grants the Council continues to face reductions in Specific Grants with examples detailed below. Full detail is provided at Appendix 2.

Table 2 – Reduction in 2015/16 Specific Grants

Specific Grant	2014/15	2015/16	Variance	
	£m	£m	£m	%
Education Services Grant	7.523	6.002	(1.521)	(20)
Housing Benefit Admin Grant	4.091	3.765	(0.326)	(8)
Extended Free Rights to Transport	1.086	0.999	(0.087)	(8)
Local Welfare Assistance	1.900	-	(1.900)	(100)
Discretionary Housing Payment	1.096	0.982	(0.114)	(10)

20 In relation to the withdrawal of Local Welfare Provision Grant (£1.9m), the Government had notionally identified a sum of £1.4m in the Council's provisional RSG settlement for Local Welfare Assistance but had not transferred any additional funding into RSG in this regard at that stage. This was effectively a 'top slice' of existing RSG funding to provide for an exemplification of a notional figure 'available' for continuation of a Local Welfare Assistance scheme. An additional £0.966m has subsequently been received in the final settlement notionally linked to Welfare Provision and Social Care pressures, therefore to reflect the importance of supporting vulnerable people, it is recommended that a £1m Welfare Assistance budget should be introduced in 2015/16. The Council's policy and associated expenditure in relation to Welfare Assistance will be kept under review during 2015/16 to determine any impact for MTFP (6) and beyond.

21 The table below shows a comparison between the final settlement figures compared to the previously reported forecast position in 2015/16:-

Table 3 – Final Finance Settlement Compared to Forecast

Grant/Income	2015/16 Settlement	2015/16 Forecast	Difference
	£m	£m	£m
Revenue Support Grant	100.240	98.665	1.575
Town and Parish RSG Adjustment	0.270	0.285	(0.015)
Business Rate RPI Increase	0.999	1.203	(0.204)
Top-Up Grant RPI Increase	1.134	1.365	(0.231)
Section 31 Grant Increase	0.515	0.080	0.435
New Homes Bonus (NHB) Increase	1.538	1.500	0.038
NHB Re-imbursement	0.377	0.390	(0.013)
Total Variance	**105.073**	**103.488**	**1.585**

22 The main issues to note in relation to the table above are as follows:-

(i) The Government had originally planned to top-slice £300m from RSG to finance the additional 2015/16 New Homes Bonus. The final settlement shows that the top slice has been reduced to £250m and the Government has re-instated the £50m difference to RSG resulting in a £0.609m increase in RSG for the Council.

(ii) An additional sum of £0.966m has been forthcoming to account for recognised pressures in relation to Welfare Provision and Social Care.

(iii) To protect business rate payers, the Government has capped the increase in business rates for 2015/16 at 2% rather than 2.3% which is the increase that should have been applied based on regulations, where the annual increase in business rates is based upon retail price index as at 30 September in the previous year. This reduction of £0.435m in Business Rate income and Top Up Grant will be reimbursed to the Council through a specific grant known as 'Section 31' Grant.

(iv) The additional New Homes Bonus allocation for 2015/16 of £1.538m is broadly in line with the Council's forecast.

23 Although Government funding for the Council has been reduced by circa £40m in 2015/16, the settlement is actually £1.585m better than previously forecast.

24 The additional £1.585m has been utilised in the 2015/16 budget by reducing the previous call on the contingency budget and introducing a £1m Welfare Provision budget.

Government Funding Reductions Based Upon 'Spending Power'

25 The Government has published data based upon their national Spending Power calculations. Spending Power includes certain Government grants, Council Tax income and Better Care Fund health funding. The average national Spending Power reduction in 2015/16 has been published as being 1.7% as compared to Durham's reduction of 2.5%. This calculation is however not wholly representative of the actual funding reduction and challenges faced by local authorities for the following reasons:-

(i) The totality of the Better Care Fund revenue allocation for the County of £39.193m is included in 2015/16 figures for the first time. This has been taken from top slicing of existing funding streams received by the Council and from existing health budgets and is effectively not new funding. The majority of this funding is either already being expended by the Council and is in the 2014/15 base budget or will be expended within the health sector next year. It is inaccurate not to include this in the 2014/15 base and this is significantly skewing the data and masking the actual level of Government funding reductions being faced by local authorities.

(ii) Certain grants are excluded from the Spending Power calculation e.g. the Education Services Grant. In 2015/16 the Council is losing £1.521m of Education Services Grant funding but this is not included in the Spending Power calculation.

26 The Chartered Institute of Public Finance and Accountancy (CIPFA) has carried out its own analysis on what the Spending Power reduction would be if Public Health Funding and the Better Care Fund were excluded. Rather than

the published national average Spending Power reduction of 1.7%, the CIPFA figure is 6.1% with a north east regional average of 7.7% based on the provisional grant settlement figures.

27 Although the actual level of funding reduction is not fairly represented in the Spending Power figures, the analysis does fairly reflect the regional variations in the funding settlement. Detailed below are a number of examples of the Governments own 2015/16 Spending Power figures showing variations across the country.

Table 4 – 2015/16 Spending Power Variation

Area	Spending Power Variation
England	-1.7%
Durham	-2.5%
Newcastle	-4.7%
Middlesbrough	-5.4%
North Yorkshire	+1.2%
Wokingham	+2.6%
Surrey	+3.2%

28 The Government has also published details of Spending Power 'per dwelling' for all local authorities. Areas of deprivation naturally require, and have always received, higher funding levels than more affluent areas. This higher level of funding in deprived areas is required for a range of reasons including the following:-

(i) In affluent areas, significant numbers of service users, especially in adult care can afford to contribute to the cost of their service provision. This is especially the case for residential care and home care services for the elderly. In these circumstances, the budget required in deprived areas is much higher than in affluent areas.

(ii) Similarly, demand for services in deprived areas such as Children's Social Care, is significantly higher than more affluent areas resulting in deprived areas requiring higher budgets.

29 There is strong evidence therefore as to why local authorities which are more reliant upon Government grant should not face higher funding reductions. Need and links to Council Tax raising capacity have been eroded over the last four years, with allocations being more focussed on equalising, over time, the level of Government support being provided to each area regardless of the needs of local circumstances.

30 Regardless of this, the Spending Power per dwelling data highlights how significantly the funding of an area such as Durham has declined in the period 2011/12 to 2015/16. The table below highlights the 2015/16 Spending Power per dwelling for a range of local authorities.

Table 5 – 2015/16 Spending Power Per Dwelling

Area	Spending Power Per Dwelling
	£
England	2,086
Durham	2,052
Bristol	2,132
Reading	2,076
Wokingham	1,932
Surrey (including Districts)	2,186

31 Considering the levels of deprivation, it is significant that Durham's Spending Power per dwelling is now less than the England average. It is even more significant that if the pace of funding reduction continues as forecast and the current allocation methodology continues, then the Spending Power of Surrey County will exceed that of Durham in 2017/18, notwithstanding that the Spending Power for Durham is already below that of Surrey County when their figures are consolidated with the Surrey District Councils. It is staggering to think that a deprived area such as Durham would have a lower Spending Power per dwelling than an affluent area such as Surrey.

Consultation

32 During autumn 2013, the Council attracted over 10,000 people to take part in the largest public engagement programme of events ever held in County Durham. These events were managed through the Area Action Partnerships (AAPs) and were held across the county. They provided the opportunity for the public to allocate grants to local projects, set AAP priorities and provide views as to how the Council should manage its budget challenges up to March 2017.

33 At these events, almost 1,300 people took the time to take part in 270 budget setting group exercises where, over 30-45 minutes, they deliberated with other members of the public as to how the Council should allocate savings of £100 million over the next few years. Feedback from those taking part in the activities was very positive, with 97% of participants feeling that it was a good way to involve local people in decision making.

34 In addition to the group exercises, comments as to how the Council should achieve its savings target were also provided through different forms. There were 2,074 completed paper questionnaires and a further 517 completed online.

35 The results of this budget consultation, which included over 4,000 responses, were reported to Cabinet on 12 February 2014. A clear message from the

consultation was the requirement to minimise the impact upon frontline service provision wherever possible. This feedback has influenced the development of the budget proposals for 2015/16 as set out in this report and it is anticipated that they will help inform the budget setting process for the next two to three years.

36 Having completed such a comprehensive budget consultation in 2013, this year's budget consultation concentrated on seeking views from the 14 AAPs and the key partner agencies that make up the County Durham Partnership. This involved two distinct phases. The first phase focussed on the AAP Boards and Forums, where attendees were asked specific questions, namely:-

- Since the public consultation in 2013, has anything changed in your area that you feel would affect which services should have larger or smaller reductions?

- Where a local organisation has shown interest, should the council explore the opportunity of them managing a facility or service to reduce the impact of budget savings on communities?

- Are there any council facilities or services in your area that could be managed by local people?

37 The second phase of the consultation concluded on 15 January 2015, and sought views on the draft 2015/16 budget proposals (as reported to Cabinet on 17 December 2014) from AAP Boards and partner agencies.

Phase I – Public Consultation

38 The first phase of the consultation which concluded on 12 December 2014 and involved presentations to all 14 AAP Boards as well as the completion of questionnaires at the 14 AAP Forum events. A total of 602 hard copy questionnaires were collected at the AAP Forums and a further 110 were submitted online bringing the overall total to 712.

39 Overall, a majority of respondents (65%) said that nothing changed in their area that would affect which services should have larger or smaller reductions. Where respondents did identify change they were more likely to identify services or issues that should be **protected** from larger budget reductions (86%), rather than those to be cut by more (14%).

40 Most commonly and in order of priority, respondents who did identify change tended to say the following services should be protected from larger budget reductions:-

- Subsidised Bus Travel
- Roads, footpaths, traffic and lighting
- Job Creation
- Support for Community Projects, Centres, Partnerships and Groups.

41 Respondents identified the following services that should have larger budget reductions:-

- Finance, Legal, Information Technologies and Human Resources
- Gritting and Snow Clearance
- Roads, footpaths, traffic and lighting
- Democratic Support - Decisions and Elections
- Social Work and Protecting Vulnerable Children and Adults.

42 A full list of the services identified by respondents is available in Appendix 3.

43 Older respondents tended to be more likely to identify change than younger ones and most commonly they identified the following issues:-

- Subsidised Bus Travel
- Roads, footpaths, traffic and lighting
- Social Work and Protecting Vulnerable Children and Adults.

44 As with the consultation carried out in 2013/2014, there was a general understanding of the scale of the financial challenge facing the council. In the light of this situation, a large majority of respondents (93%) felt that the council should explore opportunities for local organisations to manage Council facilities or services as being promoted through The Durham Ask.

45 The services respondents felt there could be most scope for transfer, included:-

- Libraries
- Community centres
- Grass Cutting, flower beds.

46 Similar to the questionnaire responses, AAP Boards were in favour of progressing with The Durham Ask. However, in reaching their conclusion, it was suggested the council needed to:-

- Ensure the focus includes established organisations (including local councils and other partners) in addition to smaller voluntary organisations and groups
- Ensure that groups are confident that they can operate appropriately post transfer
- Provide training/support so groups understand the full scale and responsibilities and are able to apply for funding. This support could be offered by council staff or the VCS.

47 A number of other suggestions for achieving the necessary savings whilst maintaining community services and facilities were highlighted by AAP Boards. These included proposals that:-

- More work should be undertaken to consider whether joint arrangements could be developed with neighbouring authorities and other private sector organisations.
- Consideration should be given to ensure there is sufficient executive housing across the County to help attract new businesses to the area.
- When considering service provision/withdrawal, account should be taken of the varying levels of need across the county, in terms of population size (current and planned growth) as well as deprivation levels.

48 In general, the most common response from AAP Boards was concern at the level of the cuts facing the Council and the need to develop innovative solutions such as The Durham Ask to try to safeguard frontline services.

49 Finally, in addition to the consultation set out above, the opportunity was taken to supplement this consultation by seeking views of children and young people at a series of school based events in the East of the County. Overall 724 took part from various schools. Overall, a large majority of children and young people consulted supported last year's results with respect to services that should have a smaller reduction. However, a small majority of respondents disagreed about the services that should receive larger reductions. This was most so with subsidised bus services where 62% of children and young people disagreed that the council should save money on this service.

Phase 2 – Partner Consultation

50 Phase 2 of the consultation sought views on the draft 2015/16 budget proposals (as reported to Cabinet on 17 December 2014) from AAP Boards and partner agencies which make up the County Durham Partnership. Respondents generally welcomed the opportunities to continue to work collaboratively and therefore contribute to shaping future budget reductions and mitigate against impacts. From those which responded, there were no suggestions to amend specific savings proposals in the report. However some areas for consideration where highlighted and are detailed below:-

51 It is reassuring that the council's commitment to consult has continued and that it has been able to deliver budget savings of £137 million without major effects on frontline services. However, there is concern about what will happen to frontline services in the future given the level of savings which need to be achieved by 2019.

52 Concern was expressed about the higher spending power reductions faced by Durham County Council in comparison with the average for England. One Council highlighted that when deciding on support for school crossing patrols, note should be taken of growth in traffic due to new developments.

53 Local Councils welcomed the continued support from Durham County Council of passing the Council Tax Support Grant and the support it has provided to County Durham Association of Local Councils.

54 The Durham Ask approach was supported as a method to achieve savings whilst maintaining services and it was recognised that the VCS will be working alongside the council to support its implementation.

55 That the Council should allocate some of the New Homes Bonus generated by the new houses built in Spennymoor to specific projects in the town to address its deteriorating infrastructure.

56 Durham Community Action highlighted that they will work with the Council to mitigate potential impacts of the reductions in the Community Building Grants with other support, and accepted the scale and proportion of the proposed reduction is fair and balanced given the overall budget situation.

57 Whilst preparing to implement the savings required, we need to consider;

(i) Impacts on national health priorities such as tackling obesity, particularly when Sport and Leisure is restructured.

(ii) The potential impact of the proposed changes to the Community Building Grant on the voluntary sector and the need to consider the availability of funding from other sources.

(iii) That the consistent application of eligibility criteria for care services does not result in higher costs for the health sector.

Scrutiny Committee Feedback

58 Scrutiny Members met on the 23 January 2015 to consider the December and January MTFP 5 Cabinet reports. Full verbal feedback on the outcomes from this meeting will be given by the Chair of the Overview Scrutiny management Board at the Cabinet meeting on the 11 February 2015, and a summary of headline issues raised is included below.

59 Overall, the committee acknowledged the ongoing deterioration in national finance and the effect this has on local government finances and the requirement for greater savings to be made long term. Given this difficult context, the majority of members were in support of the MTFP proposals. The committee also acknowledged the good work of the officer team who had developed the budget proposals.

60 The committee agreed that four suggestions put forward by some members of the committee should be raised for further consideration by Cabinet colleagues:

(i) The assumed energy price increases built into the base budget model may benefit from review in light of recent decreases in the price of oil;
(ii) Some members questioned whether it would be possible to reduce the underlying price inflation assumption of 1.5%, given lower recent national figures;

(iii) There was a concern about the ongoing maintenance of welfare provision in light of the national withdrawal of the Local Welfare Provision Grant;

(iv) More detail was requested regarding the rationale for one of the key savings areas - the proposal for greater court cost fee income (RES22).

61 The content and recommendations included in this report has taken into consideration all the views of members of the public, partners and the scrutiny committee in finalising the 2015/16 to 2017/18 MTFP proposals.

MTFP Strategy

62 The strategy the Council has deployed to date has been to seek savings from management, support services, efficiencies and, where possible, increased income from fees and charges to minimise the impact of reductions on frontline services as far as possible.

63 Throughout the period covered by the MTFP (1) through to MTFP (5), the totality of savings required has risen from £123m to £225m. It is clear that it will become increasingly difficult to protect frontline services going forwards.

64 To date the Council has implemented the agreed strategy very effectively:-

(i) £136.9m of savings will have been delivered by the end of 2014/15.

(ii) Savings have been delivered on time and in some areas ahead of time. This is critically important, because slippage would mean that the Council would have to deliver higher savings over time.

(iii) The number of employees earning over £40,000 since 2011 had been reduced by 31%. This has significantly reduced management costs.

(iv) Proportionally more than three times as many manager posts have been removed than frontline staff.

(v) Whilst income from fees and charges has been increased, this has not resulted in the Council having the highest levels of fees and charges in the region, which is important given the socio-economic make-up of the county.

(vi) It was originally forecast in MTFP (1) that there would be a reduction in posts of 1,950 by the end of 2014/15. Based upon the 2015/16 savings plan it is forecast that post number reductions will still be around 1,950. Management of change policies and HR support have ensured that this degree of change has been managed effectively.

65 The importance of delivering savings early if practical to do so cannot be over emphasised. The generation of reserves in the form of cash limits has been essential in ensuring the delivery of the savings and enables a managed implementation of proposals across financial years.

66 In general, the Council has been quite accurate in forecasting the level of savings required, which has allowed the development of strong plans and to robustly manage implementation, including extensive consultation and communication. This has put the Council in as strong a position as possible to meet the continued and enhanced challenges across this medium term financial plan and beyond, where savings proposals will undoubtedly become more complex and difficult to deliver in future years.

67 The Council's existing MTFP strategy accords well with the priorities identified by the public. For example:-

(i) **Protecting basic needs and support service for vulnerable people:** Although the scale of Government spending reductions is such that all MTFPs including MTFP (5) have identified unavoidable impact on vulnerable people, the Council works hard with partners to minimise this impact as far as possible. In MTFP (5), support has been included to protect working age people on low incomes through the Council tax reduction scheme and the identification of other support to help mitigate the impact on vulnerable people. Work with health partners continues to help ensure that health and social care funds are maximised and every proposal with the potential to impact on vulnerable people is subject to an assessment to identify likely impacts and mitigate these as far as possible.

(ii) **Avoid waste and increase efficiency:** The Council has a good track record of increasing efficiency since local government reorganisation. This includes rationalisation of Council buildings, IT systems and changes such as the move to alternate weekly refuse collections. All employees have the ability to suggest ideas that could reduce waste and improve efficiency and several, value for money reviews have been successfully implemented. The Council benchmarks itself against other organisations in order to demonstrate value for money.

(iii) **Reduce Councillor and staffing costs**: Councillor costs were significantly reduced at LGR with associated support costs also reduced. The reduction in staffing of around 1,950 posts by the end of 2015/16 is a significant reduction in staffing costs. Proportionally, three times more reductions have been made in management than frontline costs.

(iv) **Work with the community:** The Council is a forerunner in asset transfer, having successfully transferred a number of leisure centres, a golf course and community buildings to date. The Council has recognised the need for investment in resources to work with the community to achieve successful outcomes in this area and shares the public's view that there is scope to continue this in the future. The "Durham Ask" initiative is expected to result in the transfer of more Council assets.

(v) **Fairness**: The Council continues to lobby the Government on the current unfairness of the geographical distribution of Government cuts, both individually and through the Association of North East Councils (ANEC). Independent evidence from the National Audit Office also confirms that Councils serving deprived areas have faced and are facing the largest cuts and this supports a number of other independent research papers, including reports from the Institute for Fiscal Studies. The Council is committed to carrying out impact assessments on its policy changes, including those arising from austerity, to identify how reductions can continue to be made in a fair way.

(vi) **Charges**: The Council has addressed some of its financial challenges through increasing fees and charges. Such decisions are carefully considered and it is acknowledged that it is not appropriate to aim for the highest charges possible given the income levels of the majority of residents and service users in County Durham.

68 It is clear that austerity will continue over the three year period of this medium term financial plan. Where the savings targets were declining year on year from the huge reduction of £66m 2011/12, the Council is likely to face several years where the targets will be higher than those for 2015/16. Obviously, the fact that each year's reduction is on top of those of previous years is leading to a forecasted, cumulative total of £225m since 2011/12 up to 2017/18 and means that the Council continues to face a very considerable financial challenge.

69 In addition, Local Government generally is facing more uncertainty about future funding and absorbing more risks from Central Government.

70 Increased risk is arising from several sources:-

(i) Under the Local Council Tax Reduction Scheme, previous national risk arising from any increased numbers of benefits claimants has been transferred to Local Authorities since 2013/14. The risk is greater for authorities like Durham that serve relatively more deprived areas and have relatively weaker economic performance than the national average.

(ii) Business Rates Retention was introduced in 2013/14 to incentivise local authorities to focus on economic regeneration by being able to retain more business rates raised locally from new businesses. Economic regeneration has always been the top priority for the Council. Unfortunately, the changes again shift risk once managed nationally to Local Authorities should there be a downturn in the local economy and local business rate yield reduces.

(iii) Welfare Reform carries increased financial risk to the Council in areas such as the Benefits Service, homelessness and housing. Similarly Council Tax may become more difficult to collect, creating increased financial pressure.

(iv) Ongoing Council Tax capping restrictions – The Council medium term financial planning is predicated on an annual 2% Council Tax increase; any Government imposed percentage reduction in this cap will create an annual pressure of circa £800,000 per 0.5% Council Tax reduction.

(v) Normal risks such as future actual price and pay inflation beyond MTFP forecasts and demographic pressures also will still apply.

71 Since clarity is expected to emerge throughout 2015 regarding the future levels of local government funding beyond 2015/16, savings plans have yet to be fully developed beyond 2015/16 and therefore only one year's savings proposals are included in this MTFP (5) and are shown at Appendix 3.

Revenue Budget for 2015/16

72 Regular updates on the development of the 2015/16 budget have been reported to Cabinet since July 2015. These updates have provided detail upon the resources available, budget pressures and the savings required to balance the budget. This report provides details on the final position.

Base Budget Pressures in 2015/16

73 Base budget pressures have been reviewed over the last year. The table below details the final position on the 2015/16 Base Budget pressures.

Table 6 – 2015/16 Base Budget Pressures

Pressure	Amount
	£m
Pay Inflation	2.750
Price Inflation	2.650
Council Housing – costs relating to Stock Transfer	3.550
Employer Pension Contributions	0.760
Energy Price Increase	0.250
Durham Living Wage	0.250
Concessionary Fares	0.320
Welfare Assistance Provision	1.000
Prudential Borrowing to Fund New Capital Projects	2.000
CAS Demographic and Hyper Inflationary Pressures	1.000
Use of Earmarked Reserve in CAS	(1.000)
Corporate Risk Contingency Budget	(0.382)
Capital Financing for Current Programme	(2.500)
TOTAL PRESSURE	**10.648**

Additional Investment

74 Additional budget has been allocated for price inflation, the cost of the recently agreed 2014/15 pay award which includes the 2015/16 pay award, additional costs in relation to both employer pension contributions and the Council's concessionary fares scheme.

75 The additional costs in relation to the transfer of the Council's housing stock from 1 April 2015 totalling £3.550m have been financed along with the £0.25m cost associated with the implementation of the Durham Living Wage which came into effect on 1 January 2015 and £1m for a recurring Welfare Assistance Provision budget to help vulnerable people with settlement grants and food vouchers.

76 The Council continues to invest in infrastructure. An additional £2m of revenue will be provided in 2015/16 budget to finance Prudential Borrowing to continue the support for new projects within the Capital Programme. A key priority of the Capital Programme is to stimulate regeneration and job creation within the local economy.

Savings Methodology

77 To date, the Council has delivered the savings required on schedule where each of the years 2011/12 to 2014/15 annual savings targets have been achieved totalling £136.9m.

78 The savings target for 2015/16 is £16.283m with the savings plans for each Service Grouping along with 'Corporate' savings being detailed in Appendix 4.

79 Based upon future years finance settlement forecasts, the Council could face significant savings targets for 2016/17 to 2018/19. Plans in relation to these years will be developed in the coming months and reported to Cabinet during the development of MTFP (6).

80 The revised forecast of savings up to the end of 2017/18 is detailed below.

Table 7 – Total Savings 2011/12 to 2017/18

Period	Savings
	£m
2011/12 to 2014/15	136.9
2015/16 to 2017/18	87.6
TOTAL	**224.5**

2015/16 Net Budget Requirement and Council Tax

81 After taking into account base budget pressures, additional investment, the Council's recommended Net Budget Requirement for 2015/16 is £409.873m. The financing of the Net Budget Requirement is detailed below.

Table 8 – Financing of the 2015/16 Budget

Funding Stream	Amount
	£m
Revenue Support Grant	100.240
Business Rates	54.809
Business Rates – Top Up Grant	60.491
Business Rates – Collection Fund Surplus	0.500
Council Tax	174.134
New Homes Bonus	8.322
New Homes Bonus Reimbursement	0.377
Education Services Grant	6.002
Section 31 – Small Business Rate Relief	2.398
Section 31 – Empty Property and Retail Relief	0.919
Section 31 – Settlement Funding Adjustment	1.681
TOTAL	**409.873**

82 The Gross and Net Expenditure Budgets for 2015/16 for each Service Grouping are detailed in Appendix 5. Appendix 6 provides a summary of the 2015/16 budget by service expenditure type, based upon the CIPFA classification of costs.

83 The Government have confirmed that Local Authorities will receive a Council Tax Freeze Grant equivalent to a 1% increase in Council Tax, if they agree not to increase Council Tax in 2015/16. The grant for Durham would be an estimated £2.180m. The Government has also confirmed that the Council Tax Referendum Limit for 2015/16 is 2%. Should the Council agree to a Council Tax increase of 1.99%, which would be below the referendum limit, this would generate £1.218m of additional income.

84 The 2015/16 Council Tax Base which is the figure utilised to calculate Council Tax income forecasts, was approved by Cabinet on 17 December 2014 as 130,493.0 Band D equivalent properties. Based upon the Council's track record in collecting Council Tax from Council Tax payers, the tax base for Council Tax setting and income generation processes will continue to be based upon a 98.5% collection rate in the long run.

Recommendations

85 **It is recommended that Members:-**

(i) Approve the identified base budget pressures included in paragraph 72.

(ii) **Approve the investments detailed in the report.**

(iii) **Approve the savings plans detailed in the report.**

(iv) **Approve a 1.99% increase in Council Tax.**

(v) **Approve the Net Budget Requirement of £409.873m.**

How the Medium Term Financial Plan (MTFP (5)) – 2015/16 to 2017/18 has been developed.

86 The following assumptions have been utilised in developing the MTFP (5) model.

(i) Government grant reductions for the MTFP period have been developed utilising information from the December 2014 Autumn Statement. The estimated Government grant reduction for 2016/17 and 2017/18 are as follows:-

Table 9 – MTFP (5) Funding Reductions

Year	Funding Reduction
	£m
2016/17	38.000
2017/18	28.000

(ii) Forecast pay and price inflation levels have taken into account the likely restraint on public sector pay and the current and forecast levels of price inflation. The assumptions built into MTFP (5) are detailed in the table below:-

Table 10 – Pay and Price Inflation Assumptions

Year	Pay Inflation	Price Inflation
	%	%
2016/17	1.5	1.5
2017/18	1.5	1.5

(iii) Continuing forecast budget pressures in relation to Employer Pension Contributions, Concessionary Fares, Energy Prices and CAS Demographics and Hyper Inflation.

(iv) Increased Employer National Insurance costs when the Government's national 'Single Pension' is introduced in 2016/17.

(v) Additional costs associated with the implementation of Single Status in October 2012. These additional costs are presently being met from the Equal Pay Reserve which is forecast to run out in 2016/17.

(vi) Continuing the need to support the capital programme.

(vii) Council Tax increases are assumed to be 2% across the MTFP (5) period.

87 At this stage, detailed savings plans need to be developed to achieve the following savings targets for 2016/17 and 2017/18.

Table 11 – Savings to be Identified

Year	Savings Target
	£m
2016/17	36.554
2017/18	34.829

88 The 16 July 2014, MTFP (5) Cabinet report introduced the option of the utilisation of a planned delivery programme (PDP) reserve to support the MTFP (5) process. For indicative processes the utilisation of the PDP of £10m in each of 2016/17 and 2017/18 has been modelled to enable consideration to be given to utilising PDP to support the MTFP. An initial £10m PDP Reserve has been created as reported in the MTFP (5) Cabinet report of 17 December 2014.

89 The MTFP (5) forecasted budget model is attached at Appendix 7.

Financial Reserves

90 Reserves are held:-

(i) As a working balance to help cushion the impact of any uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the General Reserves.

(ii) As a contingency to cushion the impact of any unexpected events or emergencies e.g. flooding and other exceptional winter weather – this also forms part of General Reserves.

(iii) As a means of building up funds, ‘earmarked’ reserves to meet known or predicted future liabilities.

91 The Council’s current reserves policy is to:-

(i) Set aside sufficient sums in Earmarked Reserves as is considered prudent. The Corporate Director Resources should continue to be authorised to establish such reserves as required, to review them for both adequacy and purpose on a regular basis and then reporting to the Cabinet Portfolio Member for Finance and to Cabinet.

(ii) Aim to maintain General Reserves in the medium term of between 5% and 7.5% of the Net Budget Requirement which in cash terms equates to up to £33m.

92 Each earmarked reserve, with the exception of the Schools' reserve, is reviewed on an annual basis. The Schools' reserve is the responsibility of individual schools with balances at the year end which make up the total reserve.

93 A Local Authority Accounting Panel Bulletin published in November 2008 (LAAP77) makes a number of recommendations relating to the determination and the adequacy of Local Authority Reserves. The guidance contained in the Bulletin "represents good financial management and should be followed as a matter of course".

94 This bulletin highlights a range of factors, in addition to cash flow requirements that Councils should consider. These include the treatment of inflation, the treatment of demand led pressures, efficiency savings, partnerships and the general financial climate, including the impact on investment income. The bulletin also refers to reserves being deployed to fund recurring expenditure and indicates that this is not a long-term option. If Members were to choose to use General Reserves as part of this budget process appropriate action would need to be factored into the MTFP to ensure that this is addressed over time so that the base budget is not reliant on a continued contribution from General Reserves.

95 The forecast balance on all reserves is reported to Cabinet every quarter as part of the Forecast of Outturn reports and Cabinet received the latest report on 19 November 2014. A range of reserves are being utilised to support MTFP (5). Details are as follows:-

- **MTFP Redundancy and ER/VR Reserve** – this reserve was originally created in 2010 with a balance of £26.9m. The reserve was replenished during 2013/14 when a further £15m was contributed to the reserve. At the end of 2014/15 it is presently forecast that the balance on the reserve will be £13m. Having this reserve in place will be a major factor in managing the savings realisation process effectively across the MTFP (5) period. This reserve will continue to be closely monitored.

- **Adult Demographic Reserve** – this reserve continues to be utilised to delay the impact of cost pressures, thus delaying the need to achieve additional savings. A sum of £4.15m is to be utilised in 2015/16.

- **Equal Pay Reserve** – The cost of successfully implementing Single Status in October 2012, in order to put in place a pay and grading structure that satisfied all equal pay legislation was greater than the £6.5m available budget. The Equal Pay Reserve is being utilised to delay the impact of this cost pressure thus delaying the need to achieve additional savings in the short term. It is forecast that the reserve will be utilised in both 2015/16 and 2016/17. The sum to be utilised in 2015/16 will be £4.536m.

- **Cash Limit Reserves** – Service Groupings continue to utilise Cash Limit Reserves to enable reprofiling of when MTFP savings are realised. A sum of £0.267m is to be utilised in 2015/16.

96 The table below details the known reserves being utilised to support MTFP (5).

Table 12 – Earmarked Reserves utilised to support MTFP (5) in 2015/16

Reserve	Sum Utilised in 2015/16
	£m
Adult Demographic	4.150
Equal Pay	4.536
Cash Limit	0.267
TOTAL	**8.953**

97 In addition to the above, the MTFP Redundancy and ER/VR Reserve will also be utilised during 2015/16 to support the delivery of MTFP (5) savings. Overall it is forecast that over £10m of earmarked reserves will be utilised to support the 2015/16 budget.

98 It is recommended at this stage that the current Reserve Policy of maintaining the General Reserve of between 5% and 7.5% of the Net Budget Requirement is retained. This will result in a General Reserve range of up to £31m.

99 A balanced MTFP model has been developed after taking into account the assumptions detailed in this report. The MTFP model is summarised below.

Table 13 – MTFP (5) Model Summary

	2015/16	2016/17	2017/18	Total
	£m	£m	£m	**£m**
Reduction in Resource Base	5.635	25.582	21.129	**52.346**
Budget Pressures	10.648	10.972	13.700	**35.320**
Savings Required	**16.283**	**36.554**	**34.829**	**87.666**

Recommendations

100 **It is recommended that Members:-**

(i) Agree the forecast 2015/16 to 2017/18 MTFP (5) financial position.

(ii) **Set aside sufficient sums in Earmarked Reserves as is considered prudent. The Corporate Director Resources should continue to be authorised to establish such reserves as required to review them for both adequacy and purpose on a regular basis reporting appropriately to the Cabinet Portfolio Member for Finance and to Cabinet.**

(iii) **Aim to maintain General Reserve in the medium term between 5% and 7.5% of the Net Budget Requirement which in cash terms is up to £31m.**

Capital Budget

101 The revised 2014/15 to 2017/18 capital budget was approved by Cabinet on 19 November 2014. Since that date, the Capital Member Officer Working Group (MOWG) has approved a number of revisions to the capital budget. The table below details the latest revised capital budget for the period 2014/15 to 2017/18 including the revisions approved by MOWG whilst also providing details of the financing. Further details of the current Capital Programme can be found at Appendix 8.

Table 14 – Current Capital Budget 2014/15 to 2017/18

Service Grouping	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
ACE	3.741	3.768	0	0	7.509
CAS	62.976	34.507	2.524	0.315	100.322
Neighbourhoods	43.474	36.375	3.819	7.631	91.299
RED	36.809	56.982	2.698	0	96.489
Resources	7.253	13.098	4.859	0	25.211
TOTAL	**154.253**	**144.729**	**13.900**	**7.946**	**320.828**
Financed by					
Grants and Contributions	62.315	37.275	5.369	0.315	105.274
Revenue and Reserves	8.387	0.280	0	0	8.667
Capital Receipts	10.229	16.619	4.673	6.687	38.208
Borrowing	73.322	90.555	3.858	0.944	168.679
TOTAL	**154.253**	**144.729**	**13.900**	**7.946**	**320.828**

Capital Considerations in the MTFP (5) Process

102 Service Groupings developed capital bid submissions during the summer 2014 alongside the development of revenue MTFP (5) proposals. MOWG have considered the Capital bid submissions taking the following into account:-

(i) Service Grouping assessment of priority.

(ii) Affordability based upon the availability of capital financing. This process takes into account the impact of borrowing upon the revenue budget.

(iii) Whether schemes could be self-financing i.e. capital investment would generate either revenue savings or additional income to repay the borrowing costs to fund the schemes.

103 Whilst considering Capital bid proposals, MOWG have continued to recognise the benefits of committing to a longer term capital programme to aid effective planning and programming of investment. At the same time MOWG also recognised the need for caution in committing the Council to high levels of prudential borrowing at this stage for future years.

Available Capital Financing – Capital Grants

104 The following level of capital grants for 2015/16 were assumed when MTFP (4) was approved at County Council on 26 February 2014.

Table 15 – 2015/16 Capital Grants Assumed in MTFP (4)

Grant	Amount
	£m
LTP – Highways Maintenance	13.480
LTP – Integrated Transport	2.566
School Capitalised Maintenance	7.200
TOTAL	**23.246**

105 Specific capital programmes were included in MTFP (4) financed from these assumed allocations. The allocations have now been confirmed with the following impact:-

(i) **Local Transport Plan (LTP) - Highways Maintenance - £11.886m**
The Government has top sliced Local Authorities LTP Highways Maintenance allocation to form an Incentive Fund and Challenge Fund. This has resulted in a significant reduction in the forecast grant allocation from £13.480m to £11.886m. The 2015/16 budget allocation approved in MTFP (4) of £13.480m will be reduced to this lower figure of £11.886m. The Council may be successful in attracting additional funding from bids to the Incentive and Challenge Funds.

(ii) **LTP – Integrated Transport £2.789m**
Confirmation of the grant allocation was received during October. The additional allocation of £0.233m has already been added to the budget.

(iii) **Schools Capitalised Maintenance/Basic Need - £5.635m**
The funding allocation for school maintenance has reduced again in 2015/16. The 2015/16 budget allocation approved in MTFP (4) of

£7.2m will be reduced to this lower figure of £5.635m Three schools have received provisional approval for improvement under the Priority Schools Building Programme at Bishop Barrington, Vane Road Primary and Durham Community Business College, although at this stage no budget allocation is forthcoming.

106 In addition to the above grants, the Council has received confirmation for additional capital grants for 2015/16 and has included indicative grants for 2016/17 in developing the MTFP (5) Capital Programme. The table overleaf provides details of the additional 2015/16 allocations, along with the indicative allocation for 2016/17 included in plans. It should be noted that funding for 'Disabled Facilities' and 'General Social Care' are financed from the Better Care Fund. If the actual allocations for 2016/17 vary from the forecast then the capital budget may be adjusted accordingly.

Table 16 – Capital Grants Utilised in Support of the MTFP (5) Capital Programme

Capital Grant	2015/16	2016/17
	£m	£m
Disabled Facilities	2.970	2.970
General Social Care	1.572	1.572
LTP - Highways	0	11.886
LTP – Integrated Transport	0	2.789
School Maintenance	0	5.635
Devolved Schools Capital	1.424	0
Total	**5.966**	**24.852**

Capital Receipt Forecast

107 In the majority of cases, capital receipts received are utilised to support the overall Council capital programme. Capital receipts are generated from asset sales and from VAT shelter arrangements in relation to previous council housing stock transfers within the former district councils. Normally Registered Social Landlords cannot recover VAT. The VAT shelter agreed with Revenues and Customs (HMRC) allows recovery normally over a 15 year period. The benefit of this is shared between the Council and the landlord. Asset sales in the main relate to land sales which are generated from the council's three year Asset Disposal Programme. It is estimated that £10m of capital receipts will be generated in 2016/17, which will support the additional schemes for approval.

108 In a small number of circumstances, capital receipts via land sales are ring fenced to particular schemes. Examples in recent years have been restricted to school schemes such as the Consett Academy development and the Wolsingham Comprehensive split site removal. In other cases estimated capital receipts have been offset by selective demolition of redundant buildings on sites declared surplus and being marketed for sale, in recent

years this has been restricted to school sites and surplus office accommodation.

Prudential Borrowing

109 An additional revenue budget of £2m has been included in the MTFP (5) for 2016/17 to support prudential borrowing. A proportion of this budget is being utilised to support the leasing costs of replacement vehicles and plant. The residual sum is available to support additional new schemes in the MTFP (5) capital programme.

Residential Homes

110 The current capital programme includes £5.841m budget in 2014/15 in relation to residential homes. This full budget will no longer be required due to the closure of these homes. It is recommended that a budget of £0.841m is retained to cover any costs associated with the facilities, especially in relation to demolition. The remaining £5m is available to support new schemes in the MTFP (5) capital programme.

Approval of Additional Capital Schemes

111 A comprehensive 2015/16 capital programme was approved as part of MTFP (4) in line with the Council policy of developing a two year rolling capital programme. The need to continue to invest in capital infrastructure is seen as an essential means of maintaining and regenerating the local economy whilst supporting job creation. Additional investment will maintain and improve infrastructure across the County, help retain existing jobs, create new jobs and ensure the performance of key Council services are maintained and improved.

112 After considering all factors, including the availability of capital finance, MOWG have recommended that the following additional value of schemes be approved for inclusion in the MTFP (5) capital programme. Full details of the additional schemes can be found in Appendix 9.

Table 17 – Additional Capital Schemes for 2015/16 and 2016/17

Service Grouping	2015/16	2016/17
	£m	**£m**
ACE	0	2.100
CAS	1.424	5.635
Neighbourhoods	0.910	20.508
RED	4.325	15.684
Resources	0.250	1.755
Total	**6.909**	**45.682**

113 The new schemes detailed in Appendix 9 will ensure that the Council continues to invest in priority projects and essential maintenance programmes. Examples of additional investments are detailed below:-

(i) **Highways Maintenance (2016/17 - £2.756m)** In line with previous years, a sum in addition to the LTP grant will be invested into highways maintenance. The sum of £2.756m will be especially important in light of the Government top slicing of LTP grant nationally.

(ii) **Unadopted Highway Maintenance (2015/16 - £0.5m 2016/17 - £1.0m**) This funding will enable Council owned unadopted highway to be made up to adoptable standards on a priority basis and then maintained as adopted highway. The unadopted highways are often in a very poor state of repair and are a danger to the public and a risk for the Council in relation to insurance claims.

(iii) **Flood Prevention (2016/17 - £1.0m)** Flooding incidents continue to have a significant impact upon the public. The additional budget allocation will enable investment in prioritised flood prevention schemes.

(iv) **A19/A189 Sheraton Junction (2016/17 - £1.5m)** Investment will enable the signalisation of this dangerous junction which had seen a number of accidents and fatalities in recent years.

(iv) **Town Centre Master Plans (2016/17 - £1.0m)** This budget will enable continued investment to continue delivery of action plans within the Cabinet approved Town Centre Masterplans.

114 After taking into account the adjustments detailed in this report, and the additional schemes the revised capital budget and its financing will be as follows:-

Table 18 – New MTFP (5) Capital Programme

Service Grouping	2014/15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m
ACE	3.741	3.768	2.100	0	9.609
CAS	57.976	34.366	8.159	0.315	100.816
Neighbourhoods	43.474	35.691	24.327	7.631	111.123
RED	36.809	61.307	18.382	0	116.498
Resources	7.253	13.348	6.614	0	27.215
TOTAL	**149.253**	**148.479**	**59.583**	**7.946**	**365.261**
Financed by					
Grants and Contributions	62.315	40.082	30.221	0.315	132.933
Revenue and Reserves	8.387	0.280	0	0	8.667
Capital Receipts	10.229	16.619	14.673	6.687	48.208
Borrowing	68.322	91.498	14.689	0.944	175.453
TOTAL	**149.253**	**148.479**	**59.583**	**7.946**	**365.261**

Recommendation

115 **It is recommended that Members:-**

- **(i) Approve the utilisation of £5m Residential Homes Capital Budget to support the MTFP (5) Capital Programme.**
- **(ii) Note the reduction in the 2015/16 Highways Maintenance Capital Budget due to the £1.594m reduction in the forecast LTP grant.**
- **(iii) Approve the revised 2014/15 Capital Budget of £149.253m.**
- **(iv) Approve the additional capital schemes detailed at Appendix 9. These schemes will be financed from the additional capital grants, from capital receipts, prudential borrowing and from the £5m transfer from the Residential Homes Capital Budget.**
- **(v) Approve the MTFP (5) Capital Budget of £365.261m for 2014/15 to 2017/18 detailed in table 18.**

Savings Proposals

Assistant Chief Executive's

116 Spending reductions of £3.81m have been achieved over the course of MTFP (1) – (4). A further reduction of £0.218m is required in 2015/16.

117 The savings made to date have been made through reviewing each of the services within the Service Grouping to identify opportunities to work more efficiently whilst continuing to provide support to the Council through a period of considerable change.

118 The service grouping has met increased demands for service arising for example from welfare reforms, programme management of significant policy changes and freedom of information requests within a much reduced resource base.

119 Much of the service grouping's savings have been realised through reduction of management and support services. The savings proposed for 2015/16 will come from a reduction of non-frontline supplies and services budgets together with reductions in community and partnership administration and non-staff budgets.

120 Frontline services mainly comprise AAP and Member budgets. These have had a lower percentage reduction than the overall reduction for the service grouping and the Council as a whole.

121 Higher reductions have been made and proposed in performance management, policy and communications in line with consultation findings.

Children and Adults Services

122 Spending reductions of over £63m have been achieved over the course of MTFP (1) – (4). A further reduction of c£8.6m is required in 2015/16.

123 The service has been impacted by a significant amount of change both internally and externally during the last few years. External factors include demographic changes as a result of an ageing population and increasingly complex cases, NHS changes, social care reforms, changes in funding for schools and new inspection frameworks for children's social care and schools.

124 Further efficiency savings have been made in supporting people to live independently through the further development of re-ablement services, reviewing transport commissioning, including home to school transport, ensuring consistency in the application of eligibility criteria to ensure people consistently receive the right level of care they need, and through better procurement of services.

125 Given the nature of the service grouping, the 2015/16 proposals comprise those that affect frontline services as well as significant savings from management, support and other efficiencies such as those resulting from effective commissioning and value for money reviews of services. Continuous development and improvement in methods of addressing child care issues will enable savings to be achieved in the costs associated with looked after children together including associated supervised contact and legal costs. Collaborative working with other bodies has also allowed for mental health and substance misuse provision to continue by adopting a revised service delivery model at a reduced cost. Significant savings relate to the changes in the number of Children's Centre services through a proposed community service delivery model, a 12 week consultation was undertaken from 31 July 2014.

126 Some of the 2015/16 proposals that affect frontline services are savings arising from policy changes made in previous years, such as a review of day care provision, plus a continuation of the strategy in previous years, including the continued focus on consistent and effective use of existing eligibility criteria within Adult Care.

127 Whilst it is clear that savings proposals in this area affect vulnerable people, all efforts continue to be made to minimise the impact as far as possible in line with the views expressed by the public. This involves reviewing and changing operating models and working practices.

Neighbourhood Services

128 Spending reductions of £22.7m have been achieved over the course of MTFP (1) - (4). A further reduction of £2.6m is required in 2015/16.

129 During this period, Neighbourhood Services has been able to make significant savings through more efficient delivery of services. Examples include the

procurement of new contracts for waste disposal, reviews of waste collection and leisure services along with rationalising the council's fleet of vehicles, savings in procurement and reductions in management and support services.

130 While every attempt has been made to prioritise savings from non-frontline services in the 2015/16 proposals, this will become increasingly difficult and unavoidable in future years.

131 A number of the 2015/16 proposals involve restructures across most areas of Neighbourhood Services. In addition there are further savings associated with more energy efficient street lighting, a review of the offer at the Gala Cinema and Bishop Auckland Town Hall, reductions in Museum funding and the implementation of charging for garden waste.

Regeneration and Economic Development

132 Spending reductions of £19.1m have been achieved over the course of MTFP (1) – (4). A further reduction of £1.3m is required in 2015/16.

133 Front line service provision was heavily affected by the removal of the Working Neighbourhoods Fund and Local Enterprise Growth Initiative (LEGI) in 2011/12, which reduced the advice and support available to unemployed people and those looking to start a new business in an economic recession. The removal of Areas Based Grants in 2011/12 amounted to £12m.

134 The service has undergone a full restructure, which has meant that the majority of savings to date have come through management, support services and efficiency measures.

135 For 2015/16, all of the savings proposed will be delivered from further staffing reductions, through vacancy management and restructuring activity alongside reductions in supplies and services.

136 Consultations held previously have consistently identified job prospects as a priority and whilst there has been a significant reduction in the Government funding available for this activity, the service grouping has sought to continue to support this area as far as possible.

Resources

137 The Council has consistently prioritised higher savings targets from Resources in line with the views of the public and this has resulted in the achievement of spending reductions of £10.2m over the course of MTFP (1) – (4). A further reduction of £1.6m is required in 2015/16.

138 A significant part of the budget covers services that provide support to other service groupings. The proposed savings for 2015/16 continue to mostly relate to reducing the staffing costs of these services. These include Human Resources, where the full year savings from the restructure implemented in 2014/15 will be achieved, Information and Communication Technology, Legal

and Democratic Services, and Internal Audit and Risk, which will all be subject to restructuring and downsizing in 2015/16.

139 Additional savings have been achieved through reductions in supplies and services and efficiencies in non-staffing budgets for Financial Services, Legal Services and Welfare Rights and from an increase in court cost fee income, where a current overachievement of budgeted income will be built into the base budget.

Recommendation

140 **It is recommended that Members:-**

(i) Note the approach taken by Service Groupings to achieve the required savings.

Equality Impact Assessment of the Medium Term Financial Plan

141 This section updates members on the outcomes of the equality impact assessment of the MTFP (5) to date, and summarises the potential cumulative impact of the 2015/16 proposals.

142 Equality impact assessments are an essential part of decision making, building them into the MTFP process supports decisions which are both fair and lawful. The aim of the assessments is to:

(i) Identify any disproportionate impact on service users or staff based on the protected characteristics of age, gender (including pregnancy/maternity and transgender), disability, race, religion or belief and sexual orientation.

(ii) Identify any mitigating actions which can be taken to reduce negative impact where possible.

(iii) Ensure that we avoid unlawful discrimination as a result of MTFP decisions.

143 The Council is subject to the legal responsibilities of the Equality Act 2010 which, amongst other things, make discrimination unlawful in relation to the protected characteristics listed above and require us to make reasonable adjustments for disabled people. In addition, as a public authority, we are subject to legal equality duties in relation to the protected characteristics. The public sector equality duties require us to:-

(i) Eliminate unlawful discrimination, harassment and victimisation.

(ii) Advance equality of opportunity.

(iii) Foster good relations between those who share a protected characteristic and those who do not.

144 The Equality and Human Rights Commission (EHRC) issued ‘Using the equality duties to make fair financial decisions: a guide for decision makers’ in September 2010. The guidance states that “equality duties do not prevent you from making difficult decisions such as reorganisations and relocations, redundancies and service reductions nor do they stop you making decisions which may affect one group more than another. What the equality duties do is enable you to demonstrate that you are making financial decisions in a fair, transparent and accountable way, considering the needs and the rights of different members of your community.”

145 A number of successful judicial reviews have reinforced the need for robust consideration of the public sector equality duties and the impact on protected characteristics in the decision making process. Members must take full account of the duties and accompanying evidence when considering the MTFP proposals.

146 In terms of the ongoing programme of budget decisions the Council has taken steps to ensure that impact assessments:

(i) Are built in at the formative stages so that they form an integral part of developing proposals with sufficient time for completion ahead of decision making.

(ii) Are based on relevant evidence, including consultation where appropriate, to provide a robust assessment.

(iii) Objectively consider any negative impacts and alternatives or mitigating actions so that they support fair and lawful decision making.

(iv) Are closely linked to the wider MTFP decision-making process.

(v) Build on previous assessments to provide an ongoing picture of cumulative impact.

147 The process for identifying and completing impact assessments in relation to the MTFP is consistent with previous years. Services, with support from the corporate equalities team, were asked to consider all proposals to identify the level of assessment required – either ‘screening’ or ‘full’ depending on the extent of impact and the deadline for the final decision.

148 Where proposals are subject to further consultation and further decisions, the relevant impact assessments will be updated as further information becomes available. Final assessments will be considered in the decision making process.

Impact Assessments for 2015/16 Savings Proposals

149 A total of 24 assessments are available for Members to inform their decisions on individual proposals. Some are existing assessments from previous years where there is a residual saving or a continuation of a savings proposal. Some are new assessments and a number of proposals do not require an assessment, for example those involving use of cash limits or savings in supplies and services.

Assessments by Service Grouping:

ACE	2
CAS	9
Neighbourhoods	6
RED	1
Resources	4
Corporate	2

The documentation has been made available for Members via the Member Support team ahead of the 11 February 2015 Cabinet meeting, and is in line with information provided in support of the December Cabinet report.

Summary of Equality Impact of 2015/16 MTFP Proposals

150 Services were required to identify potential impacts likely to arise from implementing each savings proposal. The main equalities impacts in relation to new and continuing savings proposals are summarised below for each service grouping.

151 ACE proposals have minimal equality impact and include:-

(i) Staffing proposals and proposals relating to the proposed review and withdrawal of grant funding. Specifically, the grants involved are community buildings grant and grant for the County Durham Foundation (CDF). At this stage neither proposal is thought to have specific impacts on equality groups. However, consultation will take place with community building groups and the CDF to better understand implications of grant withdrawal.

152 CAS proposals include potential impacts on age, disability and gender:-

(i) Savings largely relate to the continuation of existing proposals from previous years which continue to produce savings in 2015/16, including non-residential care charging, consistent and effective use of existing eligibility criteria, changes to stairlift maintenance contracts, in house social care provision and efficiencies in relation to management and support services.

(ii) Some proposals may lead to positive impacts, for example a proposed procurement exercise to develop additional reablement services in the independent sector is expected to support people to remain in their own homes for longer and lead to fewer, or lower level, care packages. In addition the continuing impact of the Early Help Strategy and the Looked After Children's Reduction Strategy will mean fewer children looked after and more adopted, and fewer children looked after in children's homes.

(iii) A further review of in-house day care services will be undertaken looking at re-profiling the service. This may have a potential impact on services users, many of whom are older and/or disabled. Consideration will also be given to the impact on staff which is a predominately female workforce.

(iv) The delivery of a new youth support strategy will impact mainly on young people with a key objective to increase the proportion of youth service spend on targeted support and achieve a more equitable balance between universal provision delivered through open access evening youth provision and targeted youth support.

(v) The Early Years Strategy and Review was agreed by Cabinet on 19th March 2014. The outcome of the review proposed a new model of service delivery for children and families in early years and a proposed change to the number of children's centres. The identified equalities impact will be on children, young people, families and women. However, the proposed changes are expected to lead to improved service delivery, with an emphasis on targeting resources where deprivation and needs are highest. It will also make better use of existing buildings in the heart of communities to improve access and use of these services.

153 Neighbourhood Services proposals mainly relate to staffing restructures, changes in service delivery and increased income. The assessments indicate potential impacts across all characteristics in relation to staffing reviews whilst there are potential service impacts on age, gender and disability. Fair treatment of staff will be ensured through agreed corporate HR procedures contained within the Change Management Toolkit.

(i) Existing proposals from previous years produce savings in 2015/16, including the charging for garden waste collection services due to be implemented in 2015, and changes to street lighting provision.

(ii) The proposal to identify a strategic partner to work with Culture and Sport to develop a cinema, film and catering offer across the county relates in particular to current facilities at the Gala Theatre in Durham and within Bishop Auckland Town Hall. Any changes to services or staffing would be subject to a more detailed impact assessment following agreement for the project to proceed. The Council will expect the provider to maintain the same levels of accessibility and adhere to and advance equality and diversity aims and objectives already embedded within our policies and procedures. This project has the potential to enrich communities and foster good relations between people by providing the opportunity to embrace diversity through film and theatre.

(iii) Restructure and staffing reviews relating to Direct Services are likely to affect staff and could impact staff from any or all of the protected characteristics. There may be potential service delivery impacts as a result of rationalisation and wherever possible this would be mitigated by better use of resources. The impact on sustainability and continuation of services would be considered where appropriate in specific impact assessments.

(iv) Restructure and staffing review within Strategic Highways and Culture and Sport will lead to overall reduction in number of posts and changes in responsibilities. However, operational delivery of these services will not be affected.

154 RED and Resources proposals both relate to further staffing restructures, residual savings as a result of previous staffing restructures and efficiencies from supplies and services. Fair treatment of staff will be ensured through agreed corporate HR procedures contained within the Change Management Toolkit.

155 Corporate proposals relate to a reduction in staff car mileage rate to be implemented in 2015 and existing proposals including the use of more sustainable travel options such as use of pool cars and promoting use of video conferencing to minimise travel requirements. Although there are no service delivery impacts identified related to these proposals, and these proposals would be applied consistently to all eligible employees, it should be noted that there may be specific impacts on women and disabled employees. Potential impacts have been identified for low paid female employees and staff with a disability who need to use their own car for work purposes.

Cumulative Impacts

156 Carrying out equality impact assessments on MTFP proposals helps us to understand the cumulative impact across a range of savings proposals. Generally impacts in relation to previous proposals related to loss of or reduced access to a particular service or venue and travel to alternative provision, increased costs or charges and service re-modelling including reductions in staff. This had the potential to impact on all protected characteristics however because it is more likely to affect those on low income, people without access to personal transport and those reliant on others for support there were particular impacts in relation to disability, age and gender.

157 Changes to universal services such as street lighting, bin collection and our cultural offer are less likely to have a disproportionate impact on any one group. However there are exceptions such as reductions in contracted public bus services, changes to libraries' opening hours and closure of leisure centres.

158 Dedicated services such as social care, Day Care and home to school transport have more specific and sometimes disproportionate impacts for particular groups such as people with a disability and women, particularly those with a caring responsibility.

159 Current savings proposals have similar impacts most likely in relation to increased costs or charges, loss of or reduced access to a particular service or venue and travel to alternative provision and continue to have a greater effect in terms of disability, age and gender. There are potential impacts for community groups with a proposed reduction in grant funding. There are limited impacts identified in relation to race, religion or belief and no specific impacts on transgender status or sexual orientation which is mainly due to the fact that few council services are provided solely on the basis of these characteristics. However there is also less data and evidence available to show potential impact on these groups.

160 Mitigating actions are considered where the assessments have identified negative impacts on protected groups. These generally include ensuring service users can make informed choices or find alternatives, implementing new or improved ways of working, working with partners and providing transition or more flexible arrangements to reduce the initial impact.

161 There are a number of 2015/16 proposals relating to staffing restructures and changes, the impacts are comparable to those reported in previous years. Services are required to follow corporate HR procedures to ensure fair and consistent treatment, for example, by making reasonable adjustments for disabled employees. In many cases negative impact can be minimised by progressing requests for early retirement, voluntary redundancy and through redeployment.

162 In summary the potential impacts on staff can relate to any of the protected characteristics. In terms of age, employees over 55 may feel at greater risk of redundancy or younger staff who may be more likely to have significant financial burdens in terms of mortgages or young families. There are potential gender impacts on both men and women, for example where reviews relate to senior posts or particular technical roles they are more likely to affect male employees whilst a number of proposals relate to areas with more female employees. Overall the staffing profile still shows significantly more women employed across the council so they are statistically more likely to be affected by change. There are some disabled staff and staff from black or ethnic minority backgrounds included in the reviews and restructures but the overall numbers of those affected are low which reflects the broader workforce profile data. Data on the religion or belief and sexual orientation of staff is collected through Resourcelink but the reporting rates are still very low so this information is not routinely included in equality impact assessments in order that people cannot be identified. Transgender status is not currently monitored.

Key Findings and Next Steps

163 The equality impact assessments are vital in order to understand potential outcomes for protected groups and mitigate these where possible. Details of the impacts identified at this stage will be updated for the final Cabinet and Council decision-making meetings.

164 The main equalities impacts of the 2015/16 MTFP proposals relate to age, disability and gender. The main mitigating actions include development of alternative provision models, transition arrangements, partnership working and alternative sources of support where possible. The cumulative impacts can increase costs for individuals, reduce access to services and affect their participation in employment, social activities and caring responsibilities. There will be continued focus on equalities issues as we move into future years of this MTFP, with equality impacts revisited and reviewed each year as appropriate. In some cases impact assessments are initial screenings with a full impact assessment to follow at the point of decision, once all necessary stakeholder consultation has been completed.

Recommendation

165 **Members are asked to ensure that the public sector equality duties and impact assessments are taken into account during the decision making process and are recommended to:**

- **(i) Consider the equality impacts identified and mitigating actions both in the report and in the individual equality impact assessments which have been made available in the Members' Resource Centre.**

- **(ii) Note the programme of future work to ensure full impact assessments are available where appropriate at the point of decision, once all necessary consultations have been completed.**

- **(iii) Note the ongoing work to assess cumulative impacts over the MTFP period which is regularly reported to Cabinet.**

Workforce Considerations

166 The Council's original estimated 1,950 reductions to posts by the end of 2014/15. It is forecast that after taking into account 2015/16 savings plans the figure will still be around 1,950.

167 In order to achieve this, the Council will take all possible steps to avoid compulsory redundancies and minimise the impact upon the workforce. The target will require a continued approach of forward planning, the change involving the forecasting of employee turnover, retaining vacant posts in anticipation of any required change, seeking volunteers for early retirement and/or voluntary redundancy and maximising redeployment opportunities for the workforce.

168 In addition, the way that work is organised and jobs designed will be reviewed by service groupings, to ensure that changes that are made maximise the use of the workforce numbers and skills and introduce flexibility into the way work is organised to maximise the capacity of the remaining workforce.

169 These actions have ensured that, wherever possible, service reductions are planned well in advance of commencing the exercises, employees are able to consider their personal positions and volunteer for ER/VR prior to the start of the exercise should they wish to, thereby enabling, in a number of situations, the retention of sustainable employment in the County for those who wish to remain in the workplace.

Pay Policy

170 The Localism Act 2011 requires the Council to prepare and publish a pay policy statement annually which sets out the authority’s policy relating to the remuneration of its Chief Officers, and how this compares with the policy on the remuneration of its lowest paid employees.

171 The first policy document was approved by a resolution of the Council prior to 31 March 2012 and a policy must then be published by the end of March for each subsequent year, although the policy can be amended by a resolution of the Council during the year.

172 Additionally, the Act requires that in relation to Chief Officers the policy must set out the authority’s arrangements relating to:-

(i) The level and elements of remuneration for each Chief Officer.

(ii) Remuneration of Chief Officers on recruitment.

(iii) Increases and additions to remuneration for each Chief Officer.

(iv) The use of performance-related pay for Chief Officers.

(v) The use of bonuses for Chief Officers.

(vi) The approach to the payment of Chief Officers on their ceasing to hold office under or to be employed by the authority.

(vii) The publication of and access to information relating to remuneration of Chief Officers.

173 There will be no change to the current process where Parish Councils meet the full costs of their individual by-elections. The pay policy statement presented at Appendix 10 includes the fees of the Returning Officer and deputies and other personnel employed in county or parish elections.

174 The Pay Policy Statement at Appendix 10 is for Council consideration and outlines the details for the authority for 2015/16, in line with the above requirements.

Recommendations

175 **It is recommended that Members:-**

(i) Approve the Pay Policy Statement at Appendix 10.

Members Allowance Scheme 2015/16

176 Under the Local Authorities (Member's Allowances) (England) Regulations 2003 ("the regulations"), Council must make a Scheme of Allowances in accordance with the Regulations which provide for the payment of an allowance in respect of each year to each Member of the Council. This is referred to as "the basic allowance".

177 The scheme may also provide for the special responsibility allowances to such Members of the authority as are specified in the scheme and fit within one or more of the categories set out in the Regulations.

178 The Regulations also provide that before the beginning of each financial year, the authority shall review the scheme and before it confirms or amends the scheme, it shall have regard to the recommendations made in relation to it by the Independent Remuneration Panel. The scheme may be amended at any time and where an amendment is to be made which affects an allowance payable for the year in which the amendment is made, the scheme may provide for the entitlement to such allowance as amended to apply with effect from the beginning of the year in which the amendment is made.

179 On 21 January 2015, Council considered a report, referring to the outcome of the Constitution Working Group's consideration of the recommendations of the Independent Remuneration Panel for 2014/15. Although the panel had made recommendations for an increase in members' basic allowance of 1% and to change the car mileage rate to 48p, Council resolved to make no changes for 2014/15. By this 21 January 2015 Council meeting, the panel had made its recommendations for 2015/16 of "no change" to the scheme.

180 Council is required to formally review the scheme of allowances for the year 2015/16 and the recommendations in this report include a recommendation for Cabinet to recommend to Council no changes to the members' allowances scheme for 2015/16 but to consolidate the current 3 rates of car mileage for members to 45 pence per mile from 1 April 2015. The current 3 rates are shown in the table below:

Current Car Mileage Rates	
Exceeding 500cc but not exceeding 999cc	34.6p a mile
Exceeding 999cc but not exceeding 1199cc	39.5p a mile
Exceeding 1199cc	48.5p a mile

181 By consolidating the car mileage rate to 45 pence per mile will make an estimated annual saving of £7,000 which will contribute to the 2015/16 savings target in the Resources Service Grouping (RES 13).

Recommendations

182 **It is recommended that Members:-**

(i) agree to recommend to Council that there be no changes to the Members' Allowance Scheme for 2015/16, save for consolidating Members' Car Mileage Allowances to 45 pence per mile.

Risk Assessment

183 The Council has previously recognised that a wide range of financial risks need to be managed and mitigated across the medium term. The risks faced are exacerbated by the localism of business rates and the localisation of council tax support. All risks will be assessed continually throughout the MTFP (5) period. Some of the key risks identified include:

(i) Ensure the achievement of a balanced budget and financial position across the MTFP (5) period.

(ii) Ensure savings plans are risk assessed across a range of factors e.g. impact upon customers, stakeholders, partners and staff.

(iii) Government funding reductions are based upon the December 2014 Autumn Statement. In recent years the level of funding cuts required for Local Government have increased every year.

(iv) The localisation of council tax support passes the risk for any increase in council tax benefit claimants onto the council. Activity in this area will need to be monitored carefully with medium term projections developed in relation to estimated volume of claimant numbers.

(v) The Council retains 49% of all business rates collected locally but is also responsible for settling all rating appeals including any liability prior to 31 March 2013. Increasing business rate reliefs and appeals settlements continue to make this income stream highly volatile and will require close monitoring to fully understand the implications upon MTFP (5).

(vi) The MTFP (5) model builds in estimates of pay and price inflation. Although price inflation levels are reducing, there could be a significant impact if the Low Pay Commission agrees to large increases in the minimum wage. Many Council' contractors would be likely to request above inflation contract price increases if the minimum wage increased at a level above inflation.

(vii) The outcome of the 2015 General Election on 7 May 2015 could impact local government. It is likely that there will be a Comprehensive Spending Review in the autumn of 2015. The impact of this will need to be considered as part of the development of MTFP (6).

Recommendation

184 **It is recommended that Members:-**

(i) Note the risks to be managed over the MTFP (5) period.

Dedicated Schools Grant (DSG) and School Funding – 2015/16

185 From April 2013 the Government reformed the statutory guidelines under which the local authority allocates funding to individual schools. This "simplified system" places more emphasis on pupil driven factors and restrictions on the formula funding factors that can be applied by the local authority to direct funding to individual schools and represented a significant change in County Durham, where a set of bespoke specific formula factors had been established over a number of years.

186 From April 2015, the Government is amending the way in which funding for primary and secondary schools is provided to local authorities. These changes involve the re-allocation of funding between areas on the basis of pupil numbers, pupil need (based on deprivation, prior attainment, looked after children, pupils with English as an additional language), sparsity and numbers of schools in each local authority area.

187 In order to ensure that no authority was worse-off as a result of this re-allocation, £350m of additional funding has been made available in 2015/16 to increase national allocations. Primary and Secondary Schools in Durham have benefited from the new basis of allocation methodology and for 2015/16 this results in an increase per primary or secondary pupil from £4,572.50 to £4,640.88 which equates to c£4.2m additional funding into County Durham.

188 Primary and secondary funding will also increase by c£3.59m as a result of additional delegation in respect of capitalised structural maintenance, for which the Council is no longer allowed to retain DSG centrally next year; the

Council will retain the same responsibilities in respect of capitalised maintenance, but will have less funding available, which will restrict the works that it can undertake. Schools have been advised that they may need to be prepared to set aside funding from their delegated budget to contribute towards the cost of less urgent works.

189 Transitional protection from the impact of the formula changes introduced from 2013/14 onwards is provided through the Minimum Funding Guarantee (MFG), which limits the year on year change in funding per pupil for each school: the maximum decrease any school would face is 1.5%. The cost of providing this protection is met by capping increases in funding per pupil; in 2015-16 the maximum increase is likely to be around 9%. The MFG only protects schools from the impact of the formula changes, not from the impact of falling roll numbers and is designed so that over time the amount of protection reduces. The Government has not made any commitments about the MFG beyond 2015/16.

190 There are no significant changes to the primary and secondary formula for 2015/16. The main change arises from pupil numbers and increases in the amount of funding available to be delegated to schools. Consultation on the formula factors to be applied in 2015/16 has been through the Schools Forum and via the Schools Extranet.

191 The DSG is notionally split into three ‘blocks’: Early Years, High Needs and Schools.

192 The Early Years block provides funding for 3 to 4 year old provision, which includes Early Years Single Funding Formula (EYSFF) to maintained Nursery Schools, nursery units in primary schools and academies, and Private, Voluntary and Independent sector providers for 570 hours of free early education or childcare a year.

193 In addition to funding through the EYSFF, the maintained nursery schools also receive funding through a formula. The formula includes an amount per pupil, a deprivation element, a lump sum and an allowance for rates.

194 The High Needs Block provides for pupils with high cost SEN (requiring provision costing more than £10,000 per year), including specialist placements, place based funding for special schools, top-up funding to reflect additional costs for individual pupil support and SEN support services.

195 The Schools Block includes centrally retained funding and funding for primary and secondary schools in respect of the education of pupils from Reception to Year 11.

196 DSG funding for 2015/16 is as follows:-

Table 19 – DSG Funding

DSG Block	Amount per pupil £/pupil	Pupils	DSG Allocated £m	Additional Funding £m	Total DSG Allocation £m
Schools Block	4,640.88	61,566	285.720	1.128	286.848
Early Years Block	3,866.10	4,408	17.042	0.553	17.595
High Needs Block	-	-	46.911	-	46.911
Total DSG			**349.673**	**1.681**	**351.354**
Pupil Premium				26.600	26.600
Total			**349.673**	**28.281**	**377.954**

197 Primary and secondary formula funding for Academies in County Durham totals £70.790m. This funding is recouped by the Education Funding Agency and allocated directly to the individual schools, leaving £280.564m of DSG funding payable to the Council for maintained schools.

198 Funding is being provided through the DSG to provide free early education places for eligible 2 year-olds from lower income households. The basis of the allocation is changing for 2015/16 to participation funding (based on census data taken in January 2015 updated by an autumn census) for early education entitlement for two year olds from 2015/16. The DfE will not announce the 2015/16 allocations until June 2015. The rate per hour for Durham has been confirmed as £4.85 per hour which is in line with the current level of hourly payments to providers.

199 Pupil premium for schools and academies in Durham for 2014/15 is £26.35m. For 2015/16 the premium per pupil for primary pupils is increasing from £1,300 to £1,320; for secondary pupils there is no change and the premium remains at £935; and for looked after children there is no change and the premium remains at £1,900. Pupil numbers eligible for pupil premium for 2015/16 are not yet confirmed, but it is estimated that the premium for schools and academies in Durham will be in the region of £26.60m for 2015/16.

200 From April 2015, the DfE are introducing an Early Years Pupil Premium for disadvantaged three and four year olds the eligibility criteria for which is in line with the school age pupil premium. This will be paid at the rate of £300 per year for each eligible child and whilst pupil numbers eligible for this premium for 2015/16 are not yet confirmed, it is estimated that the premium will be in the region of £0.55m for 2015/16.

Recommendation

201 **It is recommended that Members:**

(i) Note the position on the Dedicated Schools Grant.

Housing Rents

202 The Council is on track to transfer its housing stock of circa 18,500 dwellings to the County Durham Housing Group (CDHG) on 23 March 2015. Therefore, for 2015/16 onwards Durham County Council will no longer maintain a statutory ring-fenced Housing Revenue Account.

203 Regulations require that tenants receive at least four weeks' notice of a change in housing rents and therefore Durham will be required to set rents for the final time for 2015/16. In future, this will be the responsibility of the County Durham Housing Group.

204 Under current national rent policy the Government sets a guideline increase or decrease based on the consumer price index in the previous September plus 1%. The increase in rents for 2015/16 consists of the CPI as at September 2014 of 1.2% and a real increase of 1%.

205 Applying the Government's guidelines results in an overall average increase of 2.20% for Durham which yields an average rent of £70.20 per week in 2015/16 (based on 52 weeks). The following table shows the impact on the average rent levels across the three management areas:-

Table 20 – 2015/16 Rent Levels

	Durham City		Easington		Wear Valley		Total	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
	£	£	£	£	£	£	£	£
Average Rent	71.23	72.80	66.42	67.88	69.56	71.09	68.69	70.20
Maximum Rent	103.07	105.34	84.44	86.30	116.39	118.95	116.39	118.95
Minimum Rent	51.55	52.68	51.53	52.66	30.52	31.19	30.52	31.19

Table 21 - Average Changes in Rent 2014-15 and 2015-16

	Durham City		Easington		Wear Valley		Total	
	%	£	%	£	%	£	%	£
Average Increase	2.20	1.57	2.20	1.46	2.20	1.53	2.20	1.51

Garage Rents

206 The HRA currently includes responsibility for managing and maintaining around 3,200 garages which generate income to the account. For 2015/16 it is proposed that increases in garage rents are linked to the CPI as at September 2014 of 1.2% plus 1 percentage point (for consistency with the annual rent increase for dwellings). Private tenants are required to pay VAT on garage rents, whilst Council tenants are excluded from the VAT charge. The proposed weekly charges for 2015/16 (based on 52 weeks) are £7.26 (for council tenants who are exempt from VAT) and £8.71 (for private tenants where we need to charge VAT).

Recommendation

207 **It is recommended that Members agree:-**

(i) To set dwelling rents for 2015/16 in accordance with Government guidelines which result in an overall average increase of 2.2%.

(ii) To increase garage rents by 2.2% which is in line with CPI as at September 2014 plus 1 percentage point.

Prudential Code

208 This section outlines the council's prudential indicators for 2015/16 to 2017/18 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements:-

(i) The reporting of the prudential indicators, setting out the expected capital activities as required by the CIPFA Prudential Code for Capital Finance in Local Authorities as shown at Appendix 11.

(ii) The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007 as shown at Appendix 11.

(iii) The Treasury Management Strategy statement which sets out how the Council's treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the 'Authorised Limit', the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by section 3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code and shown at Appendix 11.

(iv) The investment strategy which sets out the council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the CLG Investment Guidance and is also shown in Appendix 11.

The above policies and parameters provide an approved framework within which the officers undertake the day to day capital and treasury activities.

209 The Annual Investment Strategy for 2015/2016 has been amended as follows:

(i) The option of investing in Certificates of Deposit (CDs) has been introduced. CDs are more flexible than fixed term deposits and can be redeemed before the maturity date if required. They also give access to counterparties that do not offer traditional fixed term deposits.

(ii) The monetary limits for Money Market Funds have increased to £20m per fund (overall £100m) in 2015/2016, from £10m (overall £50m) in 2014/2015. This is a recommendation by Capita, the Council's Treasury Management advisor, and is intended to provide an alternative source of investment should the rates on Bank instant access accounts fall further.

Recommendation

210 **It is recommended that Members:-**

(i) Agree the Prudential Indications and Limits for 2015/16 – 2017/18 contained within the Appendix 11 of the report, including the Authorised Limit Prudential Indicator.

(ii) Agree the Minimum Revenue Provision (MRP) Statement contained within Appendix 11 which sets out the council's policy on MRP.

(iii) Agree the Treasury Management Strategy and the treasury Prudential Indicators contained within Appendix 11.

(iv) Agree the Investment Strategy 2015/16 contained in the Treasury Management Strategy (Appendix 11 and the detailed criteria included in Appendix 11).

Summary of Recommendations

211 **It is recommended that Members:-**

(a) 2015/16 Revenue Budget

(i) Approve the identified base budget pressures included in paragraph 72.

(ii) Approve the investments detailed in the report.

(iii) Approve the savings plans detailed in the report.

(iv) Approve a 1.99% increase in Council Tax.

(v) Approve the Net Budget Requirement of £409.873m.

(b) MTFP (5)

(i) Agree the forecast 2015/16 to 2017/18 MTFP (5) financial position.

(ii) Set aside sufficient sums in Earmarked Reserves as is considered prudent. The Corporate Director Resources should continue to be authorised to establish such reserves as required to review them for both adequacy and purpose on a regular basis reporting appropriately to the Cabinet Portfolio Member for Finance and to Cabinet.

(iii) Aim to maintain General Reserve in the medium term between 5% and 7.5% of the Net Budget Requirement which in cash terms is up to £31m.

(c) Capital Budget

(i) Approve the utilisation of £5m Residential Homes Capital Budget to support the MTFP (5) Capital Programme.

(ii) Note the reduction in the 2014/15 Highways Maintenance Capital Budget due to the £1.594m reduction in the forecast LTP grant.

(iii) Approve the revised 2014/15 Capital Budget of £149.253m.

(iv) Approve the additional capital schemes detailed at Appendix 8. These schemes will be financed from the additional capital grants, from capital receipts, prudential borrowing and from the £5m transfer from the Residential Homes Capital Budget.

(v) Approve the MTFP (5) Capital Budget of £365.261m for 2014/15 to 2017/18 detailed in table 18.

(d) Savings Proposals

(i) Note the approach taken by Service Groupings to achieve the required savings.

(e) Equality Impact Assessment

(i) Consider the equality impacts identified and mitigating actions bit hint he report and in the individual equality impact assessments which have been made available in the Members' Resource Centre.

(ii) Note the programme of future work to ensure full impact assessments are available where appropriate at the point of decision, once all necessary consultations have been completed.

(iii) Note the ongoing work to assess cumulative impacts over the MTFP period which is regularly reported to Cabinet.

(f) Pay Policy

(i) Approve the Pay Policy Statement at Appendix 10.

(g) Members' Allowances

(i) Agree to recommend to Council that there be no changes to the Members' Allowance Scheme for 2015/16, save for consolidating Members' Car Mileage Allowances to 45 pence per mile.

(h) Risk Assessment

(i) Note the risks to be managed over the MTFP (5) period.

(i) Dedicated Schools Grant

(i) Note the position of the Dedicated Schools Grant.

(j) Housing Rents/Garage Rents

(i) To set dwelling rents for 2015/16 in accordance with Government guidelines which result in an overall average increase of 2.20%;

(ii) To increase garage rents by 2.2% which is in line with CPI as at September 2014 plus 1 percentage point.

(k) Prudential Code

(i) Agree the Prudential Indications and Limits for 2015/16 – 2017/18 contained within Appendix 11 of the report, including the Authorised Limit Prudential Indicator.

(ii) Agree the Minimum Revenue Provision (MRP) Statement contained within Appendix 11 which sets out the Council's policy on MRP.

(iii) Agree the Treasury Management Strategy and the Treasury Prudential Indicators contained in Appendix 11.

(iv) Agree the Investment Strategy 2015/16 contained in the Treasury Management Strategy (Appendix 11 and the detailed criteria included in Appendix 11).

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Appendix 1: Implications

Finance – The report sets out recommendations on the 2015/16 Budget and for the MTFP(5) period 2015/16 – 2017/18.

Staffing – The impact of the MTFP upon staffing is detailed within the report.

Risk – A robust approach to Risk Assessment across the MTFP process has been followed including individual risk assessment of savings plans.

Equality and Diversity/ Public Sector Equality Duty - Full information on equality and diversity is contained within the report.

Accommodation – the council's Corporate Asset Management Plan is aligned to the corporate priorities contained within the Council Plan. Financing for capital investment priorities is reflected in the MTFP Model.

Crime and Disorder – It is recognised that the changes proposed in this report could have a negative impact on crime and disorder in the county. However, the council will continue to work with the Policy and others through the safe Durham Partnership on strategic crime and disorder and to identify local problems and target resources to them.

Human Rights – Any human rights issues will be considered for each of the proposals as they are developed and decisions made to take these forward. There are no human right implications from the information within the report.

Consultation – Full information on the MTFP(5) consultation process are contained in the report.

Procurement – Wherever possible procurement savings are reflected in service groupings savings plans.

Disability Issues – All requirements will be assessed in Equality Impact Assessments.

Legal Implications – The Council has a statutory responsibility to set a balanced budget for 2015/16. It also has a fiduciary duty not to waste public resources.