

County Council

26 February 2014

General Fund Medium Term Financial Plan, 2014/15 to 2016/17 and Revenue and Capital Budget 2014/15



Report of Cabinet (Councillor Simon Henig, Leader of the Council)

Purpose of the Report

- 1 To provide County Council with the financial details of Cabinet's budget recommendation for the 2014/15 Revenue and Capital Budget and Medium Term Financial Plan (MTFP4) 2014/15 to 2016/17.

Executive Summary

- 2 The council has faced unprecedented reductions in Government grants since the 2010 Comprehensive Spending Review (CSR) when the expectation for local government was a 28% cut in Government grant for the MTFP (1) period 2011/12 to 2014/15. Since that time the majority of the Chancellor of the Exchequer's March Budget and Autumn Statement announcements have included additional cuts to local government culminating in the 2015/16 Spending Round announcement of June 2013 which detailed a 10% funding reduction for local government in 2015/16. It is now forecast that Government grant to local government will have reduced by over 40% by the end of 2015/16.
- 3 The Chancellor of the Exchequer has also announced the need for a further £25bn of public expenditure reductions for 2016/17 and 2017/18. With £12bn expected to be found from Welfare budgets, £13bn will need to be found from Government Departments. It is expected that Health, Education and Aid budgets will continue to be protected resulting in increased pressure upon the remaining Government Departments. It is therefore forecast that the Government grant reductions for local government in 2016/17 and 2017/18 will be similar in magnitude to those of 2014/15 and 2015/16.
- 4 It is apparent therefore that the financial landscape for local authorities will remain challenging until at least 2017/18. The challenges faced are exacerbated in Durham for a range of reasons:
 - (i) Government grant reductions are not evenly distributed across the country as evidenced by the Government's Spending Power figures. For 2014/15 and 2015/16 the cumulative Spending Power reduction for the council is 6.3% and for the twelve North East councils 7.5%. This compares with a national average reduction of 4.7%, whilst many

affluent areas are seeing an actual increase in Spending Power e.g. Surrey +3% and Buckinghamshire +2.5%;

- (ii) Government funding is now inextricably linked to the performance of the local economy via Business Rate Retention and Local Council Tax Support Schemes. The link to a 'Needs Assessment' is no longer the key determinant of local authority funding. The current economic recovery is centred very much around the South and South East which is benefitting local authorities in those areas;
 - (iii) demand for services from local authorities is increasing with the impact of Welfare Reforms continuing to have an impact. Deprived areas are particularly impacted and this issue will continue to be a high priority as the Government plans to remove an additional £12bn from welfare budgets during 2016/17 and 2017/18.
- 5 Overall it is now forecast that the council will need to save £224m over the 2011 to 2017 period. A sum of £113.9m of savings will have been realised by the end of 2013/14 resulting in a £110.1m savings requirement for the three year MTFP (4) period 2014/15 to 2016/17. The 2014/15 budget requires savings of £23m to be delivered to achieve a net budget requirement of £438.765m.
- 6 The council undertook innovative and wide ranging public consultation on the MTFP throughout October to early December. Building on our expertise on participatory budgeting (PB), all 14 Area Action Partnerships (AAPs) conducted a PB event (or events in the case of Mid Durham). Over 10,000 people voted at the PB events with more than 3,000 giving the council their views on the MTFP and 1,300 taking part in a board game based exercise designed to glean spending priorities through group discussion.
- 7 The key findings of the consultation were:
- (i) members of the public found it hard to identify the required level of savings that the council needs to deliver;
 - (ii) across all of the different consultation methodologies, there was little consensus on which services to 'protect' in relative terms;
 - (iii) there was considerable consensus on the services from which to take more savings. However, on their own, these would not be sufficient to meet the level of savings required;
 - (iv) there was a rich level of intelligence from the group exercise work;
 - (v) there was support from the group exercises for a council tax rise of up to 2% but very little support for a rise in excess of this level.
- 8 Despite the difficulties posed by the unprecedented funding reductions on top of unavoidable budget pressures such as inflation, the budget proposals for 2014/15 include a number of investments, aligned to the core priorities of the council and the outcome of the public and stakeholder consultation:

- (i) the council has decided to extend the current Local Council Tax Support Scheme for a further year into 2014/15. This will continue to protect 33,557 Working Age Council Tax Claimants who would otherwise have to start paying a proportion of their council tax due to the Government's abolition of the national Council Tax Benefit scheme in April 2013;
 - (ii) the council continues to prioritise capital investments which is seen as very important in maintaining employment levels within the county and improving infrastructure to assist in regenerating the local economy. The total capital programme for 2014/15 to 2016/17 is £261.090m with a key focus upon regeneration and economic development. Major investments include additional highways maintenance investment from the council of £4.756m to supplement Government grant funding, the redevelopment and relocation of Durham Bus Station and regeneration/site assembly projects in Bishop Auckland, Peterlee, Seaham and Crook;
 - (iii) a £1.3m increase in the Winter Maintenance Budget is included in 2014/15. This will provide increased financial resilience in order to keep our highways and other roads open during inclement weather conditions;
 - (iv) protection is afforded to the Benefits Service which has faced a further Government grant cut of £0.5m. This will enable the council to continue paying the 65,000 housing and Council Tax Support Scheme claimants their entitlements to benefit promptly.
- 9 The council's strategy of the past three years has been to protect frontline services as far as possible and the proposals for 2014/15 are in line with that strategy, though this is becoming increasingly difficult to maintain over time. This report summarises the main proposals, how these are in line with the council's overall strategy and have been shaped by residents' views with an initial high level analysis of the equality impacts.
- 10 Unlike in previous years, it has not been possible to establish high level proposals for the entire period covered by the MTFP. This is because the scale of savings required, coming on top of those already delivered and proposed for 2014/15, presents a much greater challenge than before. It is also the case that there is greater financial uncertainty over the medium term. The Government's spending round covered the period to 2015/16 only, in advance of the general election in 2015. There is also much uncertainty about public health and social care funding in the medium term. It is anticipated that clarity on these major issues will emerge over the course of the next financial year and shape the development of MTFP (5).
- 11 The council's original estimate in 2011 of 1,950 reductions in posts by the end of 2014/15 is still expected to be accurate. Further work will be carried out during the development of MTFP (5) to estimate the impact of further reductions on posts up to 2016/17.
- 12 In the setting of Council Tax levels for 2014/15, consideration has been given to the significant financial pressures facing the council and the fact that

Council Tax levels have remained unchanged since 2010/11. The Government have offered a Council Tax Freeze Grant for 2014/15 equivalent to a 1% Council Tax increase using the higher council tax base determined prior to the implementation of the Local Council Tax Support Scheme. It is forecast that this would generate a Council Tax Freeze Grant of £2.04m. MTFP (4) planning however has been based on a 2% Council Tax increase which is the confirmed Council Tax Referendum Limit. A 2% Council Tax increase would generate additional Council Tax income of £3.29m in 2014/15 which is £1.25m more than the freeze grant option. A recommendation in this report is for Council to agree a Council Tax increase of 1.99% for 2014/15 which is below the current referendum limit and would mean 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

- 13 The MTFP (4) integrates council plan development which sets out the council's strategic service priorities with financial plan development over a three year budgeting period 2014/15 to 2016/17.
- 14 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.
- 15 Looking back to MTFP (1) the following drivers for the council's financial strategy were agreed by Cabinet on 28 June 2010 which still stand in the current strategy:
 - to set a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in Council Tax;
 - to fund agreed priorities, ensuring that service and financial planning is fully aligned with the Council Plan;
 - to deliver a programme of planned service reviews designed to keep reductions to front line service to a minimum;
 - 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;
 - ensuring the council can continue to demonstrate value for money in the delivery of its priorities.

Local Government Finance Settlement

- 16 The final Local Government Finance Settlement was published on 5 February 2014 after the Cabinet Report of 12 February had been circulated. The settlement included final figures for 2014/15 and provisional figures for 2015/16. The final settlement for 2014/15 was £93k higher than the provisional settlement with the 2015/16 being the same. The £93k has been added to the corporate risk contingency budget.

- 17 Following consistent feedback to their consultation from local authorities including Durham County Council, the Local Government Association, the Association of North East Councils (ANEC) and the Special Interest Group of Municipal Authorities (SIGOMA), the Government has made some concessions in 2014/15:
- by reducing the New Homes Bonus (NHB) top slice from Revenue Support Grant (RSG) by £100m; and
 - by reversing the decision to transfer NHB funding to the Local Enterprise Partnership (LEP) in 2015/16.
- 18 The Government has chosen however not to make any changes to reduce the scale of other unnecessary holdbacks included in RSG in 2014/15 and recognise the council's view that the distribution of Government grant cuts across the country is unfair. The Government is pressing ahead with their funding system that Durham County Council believes is fundamentally flawed because it fails to fairly distribute grant to meet the cost pressures of providing statutory services and significantly disadvantages some of the most deprived areas of the country.
- 19 The Government announced as part of the settlement that any Council Tax Freeze Grant for 2014/15 and 2015/16 will be built into base budgets in 2016/17 and beyond, allaying any concerns for those councils accepting the freeze grant that this funding would be lost for them in the future

2014/15 Settlement

- 20 The settlement included details of core grants including Revenue Support Grant and Business Rates 'Top Up' Grant. In addition confirmation was received in relation to a range of revenue and capital specific grants. Table 1 below provides details of core grants for 2014/15 which shows a slightly improved position when compared to forecasts of £175k:

Table 1: Core grants for 2014/15

Grant Stream	2013/14 Allocation £m	2014/15 Allocation £m	Variance £m	MTFP (4) Estimate £m	Variance £m
Revenue Support Grant (RSG)	167.162	138.710	(28.452)	(32.031)	3.579
2013/14 Council Tax Freeze Grant	2.033	0.000	(2.033)	0.000	(2.033)
Business Rate RPI Increase (capped at 2% rather than 3.2%)	52.985	54.045	1.060	1.700	(0.640)
Business Rates Top Up Grant (capped at 2% rather than 3.2%)	58.223	59.357	1.134	1.900	(0.766)
Settlement Funding Assessment Adjustment – grant in lieu of lost income from RPI cap	0.000	1.204	1.204	0.000	1.204
New Homes Bonus (NHB)	4.799	6.783	1.984	1.850	0.134
NHB Top Slice Reimbursement	0.943	0.390	(0.553)	0.750	(1.303)
TOTAL CORE FUNDING	286.145	260.489	(25.656)	(25.831)	0.175

21 The main issues to note are as follows:

- after including the 2014/15 increase in the New Homes Bonus (NHB), core grants have reduced by £25.656m when compared to 2013/14;
- although the reduction in RSG is £3.579m lower than forecast this reflects the transfer of Council Tax Freeze Grant into RSG and the reduced NHB top slice as detailed below;
- the 2013/14 Council Tax Freeze grant of £2.033m has been absorbed into RSG. This loss of funding partially offsets the improved RSG position;
- the top slice from the national RSG quantum to finance the NHB has been reduced by £100m. This is reflected in the reduction in the NHB Top Slice reimbursement grant of £0.553m when compared to our allocation last year. We were actually forecasting an increase of £0.75m to £1.693m so we are £1.3m worse off when compared to forecast although this is reflected in the improved RSG position when compared to our forecast;
- Business Rates payable by all business ratepayers will increase by 2% in 2014/15 whilst the Business Rates Top Up Grant has also increased by 2% rather than the 3.2% forecast. The increase should have been 3.2% in line with retail price index inflation as at September 2013; however the Government has capped the increase to 2% as a concession to business rate payers. This has resulted in a reduction in funding against the forecast of £1.406m;
- to compensate local authorities for the loss of business rates income due to the Government's decision to cap the 2014/15 increase in business rates to 2%, a new 'Settlement Funding Assessment Adjustment' funding stream of £1.204m has been introduced;
- overall the actual reduction in core funding for 2014/15 is £175k better than forecast.

22 Specific grants confirmed up to the production of this report are detailed in Appendix 2. The main issues of note are detailed below:

- the Public Health Grant has increased by £1.247m to £45.78m in line with our forecasts. This increase has been assumed in base budget forecasts for 2014/15;
- NHS Funding has increased by £2.834m to £12.936m in line with forecasts;
- the Housing Benefit Administration Grant has reduced by £0.5m. This reduction is included as a base budget pressure in 2014/15.

2015/16 Settlement

- 23 In the Local Government Finance Settlement consultation in July 2013, the council, ANEC and SIGOMA responded strongly in relation to the unfair nature of past and future settlements. Clear evidence was provided that demonstrated how deprived local authorities had faced greater funding reductions since 2011/12 when compared to more affluent areas and were to continue to do so until at least 2015/16. Although it was always unlikely that the 2014/15 settlement would be changed, it was hoped that the Government would acknowledge the feedback and amend the methodology for the 2015/16 settlement figures. The recommendation from ANEC and SIGOMA was that the Government should use their own Spending Power calculations but with every local authority receiving the same percentage reduction.
- 24 Unfortunately the Government has chosen not to adjust the 2015/16 settlement. To highlight the impact on a range of local authorities, Tables 2 and 3 provide a comparison of both RSG and Spending Power reductions for 2014/15 and 2015/16. Spending Power includes RSG, NHB, Council Tax Freeze Grant, Public Health Grant and NHS Funding, even though a high proportion of the NHS funding will be the responsibility of the Clinical Commissioning Groups and not the council. Unfortunately, some specific grants such as Education Services Grant, which is also being reduced in 2015/16 by a forecast £1.9m are excluded, masking the true reduction in funding.

Table 2: Revenue Support Grant Reduction Variations 2013/14 and 2015/16

Comparator	Revenue Support Grant			
	2013/14	2015/16	Reduction	
	£m	£m	£m	%
National	15,175	9,233	(5,942)	39.2
Durham	167.162	98.665	(68.497)	41.0
ANEC	921.615	548.512	(373.103)	40.5
Surrey	151.169	108.976	(42.193)	27.9
Buckinghamshire	58.443	41.494	(16.949)	29.0
Wokingham	18.543	12.448	(6.095)	32.9

Table 3: Spending Power Variations - 2014/15 and 2015/16

Comparator	2014/15	2015/16	Cumulative
	%	%	%
National Average	-2.9	-1.8	-4.7
Durham	-3.7	-2.6	-6.3
ANEC	-4.1	-3.4	-7.5
Surrey	+0.2	+2.8	+3.0
Buckinghamshire	+0.1	+2.4	+2.5
Wokingham	+0.3	+3.0	+3.3

25 Tables 2 and 3 highlight the marked difference between individual local authorities. These variations also mirror the position for the period 2011/12 to 2013/14. The RSG reductions for Durham and ANEC are higher than the national average and significantly higher than areas such as Surrey. The cumulative Spending Power reduction for Durham for 2014/15 and 2015/16 is 6.3% which is 1.6% higher than the national average with the ANEC average reduction being even higher at 7.5%. These reductions are stark when compared with an actual increase in Spending Power for more affluent areas such as Surrey +3.0% and Buckinghamshire +2.5%.

26 The provisional settlement figures for 2015/16 as follows:

Table 4: Provisional 2015/16 Settlement Figures

Funding Stream	2014/15 Allocation	2015/16 Allocation	Variance	MTFP (4) Model	Variance
	£m	£m	£m	£m	£m
Revenue Support Grant	138.710	98.665	(40.045)	(39.713)	(0.332)
Business Rates	54.018	55.509	1.491	1.500	(0.009)
Business Rates Top Up Grant	59.357	60.995	1.638	1.700	(0.062)
TOTAL	252.085	215.169	(36.916)	(36.513)	(0.403)

27 The main issues to note are as follows:

- (i) funding is forecast to reduce further in 2015/16 by £36.916m;
- (ii) the increase in Business Rates income and Business Rates Top Up Grant relates to the forecast level of the Retail Price Index (RPI) of 2.76%;
- (iii) the provisional settlement is slightly worse than forecast. The loss of funding is £0.403m greater than forecast.

28 Provisional specific grant allocations are detailed in Appendix 2. The main issues of note are as follows:

- (i) the Government has withdrawn funding in relation to Local Welfare provision. The funding of £1.9m was introduced to replace the Social Fund which was previously administered by the Department for Works and Pensions (DWP). The funding is being utilised for crisis loans and for providing financial support for vulnerable people in immediate need;
- (ii) the Government has withdrawn the Local Council Tax Support Scheme New Burdens Grant (£0.267m). This withdrawal was expected.

29 The reductions in the council's Settlement Funding Assessment (SFA) for 2014/15 and 2015/16 compared to 2013/14 are detailed overleaf:

Table 5: Settlement Funding Assessment

Funding Stream	2013/14	2014/15		2015/16		Cumulative Variance	
	£m	£m	Variance	£m	Variance	£m	%
Revenue Support Grant	167.162	138.710	(28.452)	98.665	(40.045)	(68.497)	(41.0)
Business Rates	52.985	54.018	1.033	55.509	1.491	2.524	4.8
Business Rates Top Up Grant	58.223	59.357	1.134	60.995	1.638	2.772	4.8
SFA	278.370	252.085	(26.285)	215.169	(36.916)	(63.201)	(22.7)

30 The main issues to note are as follows:

- (i) RSG will reduce by 41% between 2013/14 and 2015/16;
- (ii) these reductions in RSG are partially offset by the inflationary increases (RPI) in Business Rates and Business Rates Top Up Grant;
- (iii) overall, the SFA will reduce by 22.7% between 2013/14 and 2015/16.

Consultation

- 31 The council has a strong track record of involving the public in setting its budget. A major prioritisation exercise was conducted in late 2010 which identified the areas of spend that the public most wanted to see protected from cuts and those which the public prioritised for cuts. This strongly influenced the MTFP for the period 2011 to the present. For example, the public's number one priority of winter maintenance was protected completely from any budget reductions. The council took a lesser percentage cut from adult social care and increased spending on child protection. At the other extreme, proportionally more savings have so far been delivered from management and support services in line with the public's wishes.
- 32 The council asked the public to vote on a scale of one to ten on how we had managed the spending reductions at the end of 2012. Overall the most common score was eight for people involved in AAPs (where ten is the best score) whilst it was seven for the general public. This suggests that the council has been successful in taking the public with us to date. In addition to the overall budget strategy, AAPs and partners have been widely consulted on individual budget savings on changes such as to refuse collection and library opening hours.
- 33 Recognising that Participatory Budgeting (PB) events attract a wide range of people including families, children and young people as well as older people, the council decided to use PB events to consult on the next phase of savings. Whilst the first public consultation on the budget in 2010 covered the original £123m savings to be delivered over the four years to March 2015 we now face further substantial savings to March 2017. It is therefore timely to ask the public their priorities once again.

- 34 The 2013 consultation built on our experience to ensure we developed a better understanding of residents' views about the financial pressures we face over the coming years. The council's task was to create and implement an engagement process that reflects the debates and the difficult decisions that need to be taken by this council.
- 35 Because of the scale of savings required and the complex range of services the council delivers, the primary means of consultation was designed to comprise deliberative focus groups held at the 14 AAP PB events.
- 36 In total 10,693 people cast their votes for local projects in our most recent PB exercise held as part of the autumn AAP forum events. Almost 1,300 of forum event attendees also took part in one of the 270 budget consultation sessions that took place there.
- 37 Since not everyone has time to attend specific local events, there was also the opportunity for residents to take part through either paper based, or an on-line self-completion questionnaire. Paper based surveys were handed out to people attending the forum events and resulted in 2,074 responses. The online questionnaire was promoted through the council's consultation webpages and received 517 responses.
- 38 The emphasis on a more qualitative approach was developed by reviewing the council's previous experience of budget consultation. More quantitative exercises, such as surveys, can provide a more effective means of involving larger numbers of residents but are limited in the scope of complexity that can be presented and the council's budget is complex. Table 6 lists some of the strengths and weaknesses of a qualitative approach. Overall, the group exercises were intended to give residents an opportunity to take part in an open, meaningful debate reflecting the financial challenges the council faces over the next few years.

Table 6: Strengths and Weaknesses of a qualitative approach

Strengths	Weaknesses
<p>Better reflects budget decision making process.</p> <p>Encourages consensus building through debate and negotiation of individual's preferences.</p> <p>Can involve deeper discussion of more complex issues and ideas can be discussed.</p> <p>Facilitator can ensure participants understand exercise and answer any queries.</p>	<p>Results which may not be representative of wider public.</p> <p>Can exclude those not able to attend AAP events</p>

Strengths	Weaknesses
Anyone can take part that wants to (i.e. doesn't require a statistically accurate random sample of residents)	

- 39 The activity itself was designed to be a simplified version of the budget setting process. The council's £400m net expenditure budget was set out in 32 discrete service sectors presented around an activity board. The 32 services varied in size ranging from Residential and Nursing Care for Adults, with a budget of around £58m, to Welfare Rights and Advice, with a budget of around £1m. Participants were provided with plain English service descriptions as well as information on the potential impacts removing funding from a service would have.
- 40 Group activities typically took up to eight residents around 30 – 40 minutes to complete. Participants were challenged to reduce service budgets saving a total £100m of spend to achieve a balanced budget. The exercise was divided into two stages: participants were asked to apply red and green dots to services to indicate their individual preferences for larger and smaller reductions. After this initial phase, staff from the council's finance section aggregated participants' individual preferences and calculated how much savings have been suggested. At this point the vast majority of groups (92%) had not achieved £100m savings. The average saving for all groups at this stage was £93.4m.
- 41 The second stage enabled groups to discuss and negotiate their individual preferences with the aim of achieving the target savings. As the debate progressed the group were updated on their progress towards making the £100m target to encourage the development and evaluation of priorities. At the end of the session 59% (160 out of 270 groups) had achieved the target savings (or at least £97m worth of savings). The total average savings for all groups at the end of the session was £96.8m. Following these discussions all participants were also offered the choice of increasing Council Tax to meet any deficit in their budget. It should be noted for comparison that the few people who completed the paper based survey managed to achieve the target level of savings required.
- 42 Feedback about the groups was very positive. The activity has proved popular with residents with 97% of participants feeling that this is a good way to involve local people in decision making. Very high proportions of respondents felt this activity was clear and easy to understand (98%) and easy to use (99%). Almost everyone felt their views had been listened to (97%) and the vast majority of people who took part (92%) felt they had enough time to complete the activity. Around 14% of respondents would have liked more information about the services involved to help their decision making but this does not appear to have affected the high levels of satisfaction reported by participants. Facilitators at the events noted that many participants recognised this was a difficult and challenging task faced by councils in making these funding reductions.

- 43 In order to provide further evidence for Members the consultation process included analysis of responses by equality characteristic and further targeted work with some equality groups. Response rates to the formal consultation show that:
- Gender – overall more females (57.7%) than males (42.3%) took part, though more males (53.3%) than females (46.7%) completed the online version.
 - Age – overall most responses were received from those aged 35 – 74 with the highest number of responses (19.4%) from those aged 55 – 64 years.
 - Disability – the breakdown of response rates across all three consultation methods was similar with around 10 – 12% from disabled people and 88 – 90% from non-disabled people.
 - Race – 1.3% of responses were Black and ethnic minority people.
 - Religion – the majority of response came from Christians (72.1%) with 26.1% from those with no religion or belief and 1.8% from other religions and beliefs.
 - Sexual orientation – almost 3% of responses were from lesbian, gay or bisexual people.
- 44 Using PB ensured that large numbers of residents were involved in local decision making but this did not, however, provide complete coverage. In order to ensure further participation in the process other groups were engaged through specific targeted events. The Disability Partnership were encouraged to take part in the consultation and targeted sessions were held with school children, older people and people with learning disabilities through the Pathways service. All results have been taken into account in developing the following key messages and commentary about this consultation.

Key Messages

- 45 AAP forum events were held between October and December and proved very popular with residents. Over 10,000 people attended in total making this the largest public engagement exercise ever held in County Durham. Almost 1,300 of event attendees took part in one of the 270 budget consultation sessions that took place across the 14 AAPs.
- 46 This year there was a greater emphasis on a more qualitative approach intended to give residents more of an opportunity to take part in an open, meaningful debate reflecting the financial challenges the council faces over the next few years.
- 47 Over half (59%) achieved the £100m savings target (based on those that achieved at least £97m in savings). Despite failing to achieve the target savings, the remaining 110 groups tended to prioritise similar services for both protection and larger reductions. The key difference in determining whether the savings target was met seemed to be the difference in the extent to which

groups were prepared to protect services. For example 83% of groups that did not achieve the target savings prioritised social work and protecting vulnerable children and adults by applying lower reductions. The equivalent percentage for those groups that did achieve the savings was lower at 62%. This pattern was similar across all services prioritised for lower reductions within the group exercises.

- 48 Through the course of the discussion priorities changed. After initial discussions more than a third of all choices were lower reductions protecting budgets. (At this stage, for those groups that achieved the target savings at the end of the exercise, the average savings was £90.3m.) However, by the end of the sessions this proportion fell and the proportion of higher reductions increased by an equivalent amount. The proportion of standard choices stayed the same. This shift in prioritisation enabled these groups to achieve the required savings. In other words, people who initially wanted to protect certain services, when faced with the levels of saving targets somewhat reluctantly changed their priorities.
- 49 Anecdotally, staff who facilitated the focus groups noted that groups took the exercise seriously and found it very challenging to actually reach the required savings. The most frequent comments from participants, throughout the whole consultation exercise reflected the views that services for vulnerable people should be protected and savings should be sought from 'back office' and other non-essential services. These views are in part reflected in how residents prioritised services.
- 50 Overall, results across the three methods, focus groups, online and paper based, showed some consistencies but also key differences. In both the online and the paper based methods no services were prioritised for lower reductions by a majority of respondents (i.e. more than 50%), whereas the focus group method prioritised seven services for smaller reductions using the same majority threshold. There was much more agreement about services that should be prioritised for larger reductions.
- 51 There was a high degree of consensus about which services should be prioritised for larger reductions. The following services were the only four most frequently prioritised for larger reductions across all three methods of engagement:
- **Finance, Legal, IT & Human Resources**
 - **Performance management, policy & communications**
 - **Democratic Support - decisions & elections**
 - **Subsidised bus travel**
- 52 Even if it were possible to eliminate these services entirely the savings achieved would only be just over half the required amount (£54m) and some level of back office service is of course required to allow the authority to function.
- 53 Four other services were very close to having a majority across all three methods:
- **Grass cutting, trees and flower beds**

- **Maintenance of council buildings**
- **Planning services**
- **Borrowing for New Developments**

54 However, only the group exercises provided a large enough consensus to protect services by applying a smaller reduction. The following services were prioritised for smaller reductions, by a majority of focus groups:

- **Job creation**
- **Social work and protecting vulnerable children and adults**
- **Support for adults in their homes**
- **School support and education services**
- **Support for community projects, centres, partnerships & groups**
- **Gritting & snow clearance**

55 There was little support for an increase in Council Tax of more than 2%. However, around two thirds of the group exercise felt that an increase of up to 2% would be acceptable.

Discussion of Findings

56 This year's budget consultation provided a challenge for residents as well as an opportunity to share their views about how to prioritise our services. The challenge for residents was to tell us about their priorities whilst balancing the council's budget achieving around £100m of savings.

57 Overall, results across the three methods, focus groups, online and paper based, showed some consistencies but also key differences. In both the online and the paper based methods no services were prioritised for lower reductions by a majority of respondents (i.e. more than 50%), whereas the focus group method prioritised seven services.

58 There was much more agreement about services that should be prioritised for larger reductions. Finance, Legal, IT and Human Resources was most frequently chosen for larger cuts regardless of method of engagement (84% of group exercises, 72% of paper based respondents and 69% of online respondents). Three other services were prioritised for larger reductions by more than 50% of groups or respondents across all three methods. These were; Performance management, policy & communications, Democratic Support - decisions & elections and Subsidised bus travel. Table 7 provides a breakdown of participants' priorities across all three methods of engagement. Services in bold were prioritised across all three methods.

Table 7: Most frequently prioritised services across different methods

Method	Most frequently prioritised for smaller reductions (more than 50% of groups/respondents)	Most frequently prioritised for larger reductions (more than 50% groups/respondents)
Group exercises	Job creation Social work and protecting vulnerable children and adults Support for adults in their homes School support and education services Support for community projects, centres,	Finance, Legal, IT & Human Resources Planning Services Maintenance of council buildings Grass cutting, trees & flower beds Subsidised bus travel Performance management, policy &

Method	Most frequently prioritised for smaller reductions (more than 50% of groups/respondents)	Most frequently prioritised for larger reductions (more than 50% groups/respondents)
	partnerships & groups Gritting & snow clearance Children's Centres & support for families	communications Democratic Support - decisions & elections Borrowing for new developments Collection, disposal & recycling of waste
Online		Finance, Legal, IT & Human Resources Performance management, policy & communications Democratic Support - decisions & elections Subsidised bus travel Support for community projects, centres, partnerships & groups
Paper		Finance, Legal, IT & Human Resources Democratic Support - decisions & elections Performance management, policy & communications Maintenance of council buildings Planning Services Subsidised bus travel

- 59 Over half (59%) of groups achieved the £100m savings target (based on those that achieved at least £97m in savings). Despite failing to achieve the target savings, the remaining 110 groups tended to prioritise similar services for both protection and larger reductions. The key difference in determining whether the savings target was met seemed to be the difference in the extent to which groups were prepared to protect services. For example 83% of groups that did not achieve the target savings prioritised Social work and protecting vulnerable children and adults by applying lower reductions. The equivalent percentage for those groups that did achieve the savings was lower at 62%. This pattern was similar across all services prioritised for lower reductions. A breakdown of all results from focus groups, paper based and online methods is available in Appendix 3.
- 60 There were, however, a small number of services where the overall prioritisation outcome differed depending on whether the group achieved the savings target. For example almost two-thirds (62%) of groups that did not achieve the savings target prioritised Residential and Nursing Care for Adults for a smaller reduction. However those groups that achieved the savings target reached the opposite conclusion with almost half (46%) choosing a larger reduction (Table 8). This is an indication that participants' initial priorities were altered by the scale of the savings required.

Table 8: Variation in Prioritisation of Residential and Nursing Care for Adults

	Larger Reduction	Standard 25% cut	Smaller Reduction
	%	%	%
Groups achieving less than £97m	9	29	62
Groups achieving more than £97m	46	33	21

- 61 Two further services, Fostering, Adoption and Children’s Homes and Day Centres and Support Activities for Adults, showed a similar, though less pronounced, difference.
- 62 Collectively, a clear majority of the groups that achieved at least £97m savings agreed to prioritise the following services for higher and lower reductions. It should be noted that there was more consensus about which services should be cut by more than 25% than those that should be cut by less. There were some differences in prioritisations across the different methods employed but there were many common aspects to the results. Below is a list of those services that were prioritised for larger and smaller reductions, along with an indication of the strength of feeling across different methods of engagement.
- 63 Services with Larger Reductions – where a majority of groups (more than 50%), that achieved the £100m savings target, said that a specific service should have a larger reduction.
- **Finance, Legal, IT & Human Resources** were the services prioritised for larger reductions most commonly (by 84% of groups). This view was supported online (69%) and paper based (72%) versions.
 - Slightly more than three quarters (74%) of groups felt **planning services** should take larger reductions. This view was supported by large numbers of respondents paper based (56%) exercise, though marginally not a majority, in the online method (49%).
 - Almost three quarters of groups (73%) said that the budget for the **maintenance of council buildings** should face a larger reduction. This view was supported by large numbers of respondents in the online (49%) and paper based (58%) versions.
 - **Grass cutting, trees and flower beds** was identified for larger cuts by more than seven out of ten groups (71%). This view was supported by large numbers of respondents to the online (49%) and paper (50%) based methods.
 - Almost two-thirds of groups (63%) said that **Subsidised bus travel** should face larger reductions. A view supported across other methods (62% online and 55% paper based).

- Almost two-thirds of groups (63%) said that **Performance Management, Policy and Communications** should face larger reductions. A view similarly reflected across other methods (66% online and 60% paper based).
- **Democratic Support – decisions and elections** was prioritised for larger reductions by over half of all groups (63%) and a majority of online and paper (both 62%) respondents.
- **Borrowing for New Developments** was prioritised for larger reductions by over half of all groups (57%) a view similarly supported by online (46%) and paper (49%) methods.
- **Collection, disposal and recycling of waste** was prioritised for larger reductions by a narrow majority of all groups (51%). There was less support for this view amongst online (30%) and paper based (25%) respondents.

64 Services with Smaller Reductions – where a majority of groups (more than 50%), that achieved the £100m savings target, said that a specific service should have a smaller reduction:

- **Job creation** was protected from larger cuts by almost two-thirds of groups (63%) but support for this view was less strong in online (38%) and paper based (31%) methods where a narrow majority of respondents favoured a standard reduction.
- **Social work and protecting vulnerable children and adults** was protected from larger reductions by the majority of groups at AAP events (62%). However, a majority of paper based respondents (56%) and online respondents (53%) said this service should have a standard reduction.
- Services that provide **support for adults in their homes** tended to be protected from larger budget reductions especially by those participating in the group exercises (61%). The proportion of groups targeting this service for higher reductions tended to be relatively low (8%). However, a majority of respondents to the online (51%) and paper based (54%) methods preferred a standard reduction for this service.
- **Gritting and snow clearance** was also protected by a majority of groups (56%) with some support for this point of view amongst online (34%) and paper based (32%).
- Over half of groups (61%) prioritised **school support and education services** for lower reductions with much less support for this view from respondents to the online (17%) and paper based (28%).
- Over half of groups (56%) prioritised **support for community projects, centres, partnerships & groups** for lower reductions but support was much lower amongst paper based (21%) and particularly online respondents where a majority (50%) favoured a larger cut. This

particular result reflects the context within which the budget consultation events were held. Many people taking part in these sessions were there to support community projects through the participatory budgeting exercises.

- Just over half of groups (53%) prioritised **Children's Centres & support for families** for lower reductions. There was much less support for this view amongst online (12%) and paper based (18%) respondents, where the majority designated this service for a standard reduction. Both these methods indicated a preference for a standard reduction.

- 65 Generally, in terms of prioritising larger reductions, there was little geographic variation between exercises held in different parts of the county. Events at just three AAPs (Chester-le-Street, East Durham Rural and Teesdale) identified three additional service areas targeted for higher reductions: these were Residential Care for Adults, Collection and disposal of waste and recycling and Arts, Museums and Theatres. However priorities for smaller reductions showed much more variation. Six AAPs identified additional priorities. Most commonly these were Roads, footpaths, traffic & lighting and Sports, parks and play areas.
- 66 Generally there were many similarities in outcomes across the whole exercise; however groups' views were split about some services. For example, although 40% groups said Libraries should be protected from larger reductions, a sizeable minority of one in three groups (31%) said the opposite, that Libraries should be targeted for higher reductions. A further example of mixed views is Day Centres and support activities for adults. Less than half of groups 43% decided that this service should be cut by the standard 25%. However the remaining 57% of groups were split evenly amongst higher (29%) and lower (28%) reductions.
- 67 Targeted work with under-represented groups again shows similar trends but also some key differences. These sessions involved younger people, through events at four secondary schools and a youth forum, the council's Learning Disability Parliament and older people at a day centre in Spennymoor.
- 68 Overall these groups were much more likely to protect a relatively high proportion of services from larger cuts, meaning overall savings targets were not achieved by many. The specific services protected were similar to those identified through AAP group exercise (see Appendix 3) with only support for community projects, centres, partnerships & groups and support for adults in their homes not protected from the largest reductions.
- 69 Again these groups prioritised similar services for higher reductions including Democratic Support, Finance, Legal, IT and Human Resources, Performance Management, Policy and Communications and Subsidised Bus Travel (Appendix 3).

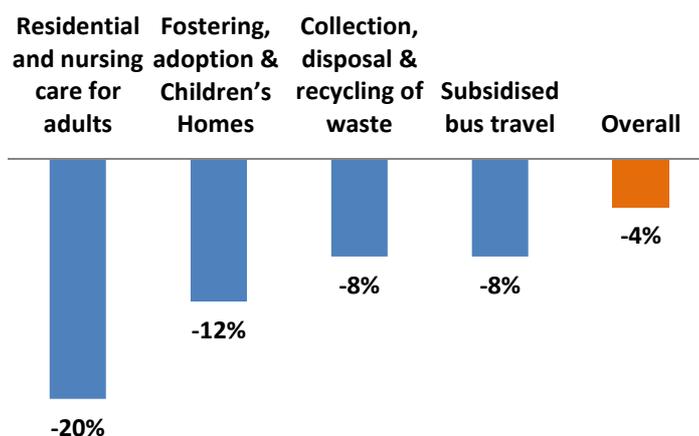
Reaching Decisions through Debate

- 70 Within their discussions about priorities it is clear that participants have made some difficult choices. Of those groups that achieved the £100m target there

was a small but measureable shift in how groups prioritised services over the course of the session. These 160 groups made over 4,300 choices in total, deciding whether each of the 32 services should have a higher, standard or lower reduction.

- 71 After initial discussions more than a third (34%) of all decisions were lower reductions protecting budgets. (At this stage the average saving amongst these groups was £90.3m.) However, by the end of the sessions this proportion fell to 30%. Conversely the proportion of higher reductions increased from 31% to 35% enabling these groups to achieve savings overall and the proportion of standard choices stayed the same at around 35%. This shift in prioritisation enabled these groups to achieve the required savings.
- 72 However for certain services this shift in prioritisation was much greater. For example, the largest shift was in how groups prioritised Residential and nursing care for adults. Initially almost half of these groups (41%) said this service should be protected from larger reductions with the majority of groups prioritising this for a lower reduction. However by the time priorities were finalised many groups' views had shifted to conclude that this service would not be protected with almost a quarter of groups shifting their lower reduction designation to a standard or higher reduction in even proportions. (Fig 1).

Figure 1 Change in extent to which groups protected services between initial discussions and final decisions



- 73 Part of the reason for this shift reflects the level of sophistication within the groups' decision making process. One of the most frequent comments from participants, throughout the whole consultation exercise was that services for vulnerable people should be protected and savings should be sought from 'back office' services. However, the group process acutely illustrated to participants that, if certain services are to be protected with smaller reductions the further savings made to 'back office' services will not be sufficient to balance the budget. This meant that groups had to re-evaluate their initial priorities to achieve the savings required.
- 74 For example, many groups felt initially that both Residential Care and Support for adults in their homes were key priorities, with many recognising the links between these services. Through the course of their deliberations, groups that achieved the savings target were more likely to retain the protection on

Support for adults in their homes but re-prioritise Residential Care for either a standard or, in some cases a higher reduction.

- 75 Similar shifts in view, albeit less common were also found in the following: Fostering, Subsidised Bus Travel and Collection and disposal of waste and recycling. However, it should be noted that sizeable proportions of respondents wanted to retain protection for these services (including Residential Care) illustrating the difficulties in reaching a clear consensus and balancing a budget.
- 76 In addition to the priority results participants were also invited to provide comment about some of the reasons why they made their decisions. Many residents took this opportunity and took the time to explain what they felt was important and why. The themes discussed are similar to those communicated in previous budget consultation exercises. Table 9 has a breakdown of these comments.

Table 9: Comments about decisions made

Broad Category of Comment	Number	%
Protect basic needs and support services for vulnerable people	515	29%
Avoid waste and increase efficiency	470	26%
Reduce Councillor and staffing costs	324	18%
Work with the community	150	8%
Fairness	88	5%
Charges	78	4%
Other	181	10%
TOTAL COMMENTS	1806	100%

- 77 Overall there was a strong focus on the need to protect those services that provide support for basic needs and wellbeing. More than a quarter of all comments received (29%) reflected this sentiment. Responses also identified specific vulnerable groups including: elderly people, children, women affected by violence, people with disabilities and people with mental health and wellbeing needs. Furthermore some respondents also felt it was important to protect essential services in rural areas.
- 78 A similar proportion of comments (26%) reflected the views that savings should be sought by increasing efficiency and avoiding waste. Respondents felt this could be achieved through better monitoring of spending, cutting down on unnecessary expenditure.
- 79 Almost a fifth of comments (18%) reflected the view that greater savings should be targeted at back office services, but also felt that all services could be made to be more efficient by avoiding waste. A high proportion of commenters felt that senior staffing and councillor costs could be reduced.

Public Views on Setting Council Tax

- 80 Following the budget consultation exercise participants were asked to consider increasing council tax to help offset the size of the savings required. Within the group exercises there was little support for a rise of over 2%. Less than one in seven participants (13%) actively voted for this option. The majority of online and paper based respondents also shared this view preferring no rise of over 2% in Council Tax.
- 81 As part of the discussions within focus groups, a supplemental question was asked about whether participants would support an increase of less than 2%. A majority of these participants (66%) voted for an increase in Council Tax of less than 2%.

Consultation with Key Partners and Elected Members

- 82 Following consideration of the budget report to Cabinet on 22 January 2014, views were sought from key stakeholder groups on the consultation findings and the budget proposals. Comments were requested from the organisations that make up the County Durham Partnership, along with the representatives that sit on the Council's Voluntary and Community Sector and the Local Councils Working Groups.
- 83 A presentation on the proposals was also made to a meeting of Durham's North East Chamber of Commerce, the key suggestion from which was a desire for the Council to ensure it maximised its income levels.
- 84 Written responses to the consultation have been received from Durham Constabulary, the Tees, Esk and Wear Valley NHS Foundation Trust, Livin, Durham Community Action, Durham Dales, Easington and Sedgefield Clinical Commission Group (CCGs), the County Durham and Darlington Foundation Trust and the County Durham Association of Local Councils (CDALC). Copies of these responses are available from the Members Library.
- 85 The majority of organisations making written submissions acknowledged the significant challenge facing the Council in setting its budget and welcomed the strategy to protect as far as possible front line services. A number specifically expressed their support for the proposals contained within the Cabinet report.
- 86 Most organisations recognised the significant level of public consultation and were reassured with the feedback. Durham Community Action and Tees, Esk and Wear Valley NHS Foundation Trust (TEWV NHS) were pleased with the targeted consultation with special interest groups.
- 87 All organisations expressed a desire to be involved in further detailed discussions as specific proposals for service changes that affect their areas of operation and impact on the lives of their customers are developed. In addition, many expressed their support for the protection of the Local Council Tax Support Scheme.
- Both the TEWV NHS and the CCGs supported the use of reserves to delay the impact of budget pressures on Adult Social Care.

- Durham Community Action welcomed the increases in the public health grants but would like clarity as to future investment opportunities for this funding. Given the importance of partnership working, they are also keen to see the continued support for technical and back office support which underpins project design, commission, delivery and fund management for EU funding.
- The Police supported the provision of funds to AAPs and local councillors as they felt this is key to local areas being able to engage in tackling issues important to them.
- Livin believe that the areas for budget reduction would have a significant impact on their tenants and welcomed the opportunity to have further exploratory discussions around alternative delivery models where mutually beneficial.
- County Durham and Darlington NHS Foundation Trust expressed their support for borrowing for new developments where there is a clear link to economic development. They felt services for people in their own homes and residential care for adults should be protected from higher funding reductions.
- CDALC has stated that the Local Council sector will endeavour to support and work with the Council wherever possible to minimise the effects that these significant reductions are having on our local community resources.

88 In addition to consultation with external partners, during the development of the MTFP, non-executive members have been engaged in the process through a series of scrutiny meetings and seminars. These have included a special meeting of the Corporate Issues Overview and Scrutiny Committee on 27th January 2014 and Overview and Scrutiny Management Board on 17 February 2014. Feedback from scrutiny will be given to Cabinet by the Chair of the Overview and Scrutiny Management Board.

Recommendations

89 **It is recommended that Members**

- (i) **note the outcome of the consultation carried out as part of the development process for the 2014/15 budget and for future budgets.**
- (ii) **note that the suggestions made by the public to help manage the budget reductions have been considered by the council.**
- (iii) **note the feedback from partners and Elected Members;**
- (iv) **agree that the council continue to engage with the public in future budget setting processes and prior to implementing changes to frontline services.**

MTFP Strategy

- 90 The strategy the council has deployed to date has been to seek savings from management, support services, efficiencies and increase income from fees and charges to minimise the impact of reductions on frontline services.
- 91 Throughout the period covered by the MTFP (1) through to MTFP (4), the amount of savings required has risen from £123m to £224m. It is clear that it will become increasingly difficult to protect frontline services.
- 92 To date the council has implemented the agreed strategy very effectively:
- £113.9m savings will have been delivered by the end of 2013/14.
 - savings have been delivered on time, or in some areas ahead of time. This is critical since slippage would mean that the council would have to deliver higher savings over time;
 - 64% of savings to date have been from non-frontline services, exceeding our initial aspiration that at least half would be from non-frontline services;
 - by the midpoint of 2013/14, the number of employees earning over £40k had been reduced by 29%. This has significantly reduced management costs.
 - proportionally more than three times as many manager posts have been removed than frontline staff;
 - whilst income from fees and charges has been increased, this has not taken the council to a position of having the highest levels of fees and charges in the region or nationally which is important given the socio-economic make-up of the county;
 - 1,520 posts have been removed to date which is in line with the original projections of 1,950 posts by the end of 2014/15. Management of change policies and HR support have ensured that this degree of change has been managed effectively.
- 93 The importance of delivering savings early if practicable cannot be over emphasised. The generation of reserves in the form of cash limits has been essential in ensuring delivery of the savings, enabling a 'smoothing' of implementation from year to year.
- 94 In general, the fact that the council has been accurate in forecasting the level of savings required has developed strong plans and robustly managed implementation including high volumes of consultation and communication has put us in as strong a position as possible to meet the continued and enhanced challenges.
- 95 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 (4) have identified unavoidable impact on vulnerable people, the council works hard with partners to minimise this impact. In MTFP (4), support has been included to protect working age people on low incomes through the council tax support 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. The fact that 64% of savings to date have been from non-frontline services is testament to successes in increasing efficiency.
- (iii) **Reduce councillor and staffing costs:** councillor costs were significantly reduced at LGR with associated support costs also reduced. The reduction in staffing of 1,950 posts by the end of 2014/15 is a significant reduction in staffing costs. Proportionally 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 leisure centres and working towards the transfer of community buildings. 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 commitment to public consultation throughout the development of successive MTFPs is also evidence of strong desire to work with the public.
- (v) **Fairness:** the council continues to lobby the Government on the unfairness of the geographical distribution of Government cuts. There is more independent evidence that councils serving deprived areas have faced and are facing the largest cuts. The council is committed to carrying out impact assessment on its policy changes, including those arising from austerity, to identify how reductions can be made in a fair way.
- (vi) **Charges:** the council has addressed some of its financial challenges through increasing charges. However it is also acknowledged that it would not be appropriate to aim for the highest charges possible given the income levels of the majority of residents and service users.

- 96 It is clear that austerity will continue over the lifetime of the three years of this medium term financial plan. Where the savings targets were declining year on year from the huge reduction of £66 million in 2011/12, the council now faces several years where the targets are growing year on year from 2014/15. Obviously, the fact that each year's reduction is on top of those of previous years leading to a cumulative £224m since 2011/12 up to 2016/17 means that the council continues to face a very considerable financial challenge.
- 97 In addition, local government generally is facing more uncertainty about future funding and absorbing more risks from central Government.
- 98 Increased risk arises from several sources:
- under the Local Council Tax Reduction Scheme, national risk arising from any increased numbers of benefits claimants has been transferred in the case of council tax support to local authorities since 2013/14. The risk is greater for authorities like Durham that serve deprived areas and have weaker economic performance than the national average;
 - Business Rates Retention was introduced in 2013/14 to incentivise local authorities to focus on economic regeneration. This has always been the top priority for the council. Unfortunately, the changes again shift risk once managed nationally to local authorities if there is a downturn in the local economy and local business rate yield reduces;
 - Welfare Reform carries increased financial risk to the council in areas such as the Benefits Services, homelessness and housing. Similarly council tax may become more difficult to collect, creating increased financial pressure;
 - ongoing Council Tax capping restrictions – the MTFP is predicated on an annual 2% Council Tax increase; any Government imposed percentage reduction in this cap will create a pressure of circa £800k per 0.5% reduction;
 - forecasts for public health and social care allocations are not known for the full period covered by MTFP4. Similarly, it is not known whether the national health formula review will have a knock on effect on health and social care budgets. The future of the Dilnot review on the funding of adult social care is not yet clear but will have financial implications for one of the council's largest budgets;
 - normal risks such as price and pay inflation beyond MTFP forecasts obviously still apply.
- 99 Since clarity is expected to emerge throughout 2015, outline savings plans have yet to be fully developed beyond 2014/15. Planning work will begin on MTFP (5) in the Spring of 2014.

Revenue Budget for 2014/15

- 100 Updates upon the development of the 2014/15 budget have been reported to Cabinet over the last nine months. These updates have provided detail upon

the resources available, budget pressures and the savings required to balance the budget. This report provides details of the final position.

Base Budget Pressures in 2014/15

- 101 The MTFP (3) for 2013/14 to 2016/17 agreed by council on 20 February 2013 identified a range of forecast base budget pressures for 2014/15. Throughout the intervening period Cabinet has approved updated MTFP (4) reports which have reviewed and updated estimates. The table below details the final forecasted position on the 2014/15 Base Budget pressures:

Table 10 – 2014/15 Base Budget Pressures

Pressure	Amount
	£m
Carbon Reduction – Carbon Tax	0.370
Expiry of LGR Disturbance Allowances	(0.220)
Pay Inflation – 1%	1.950
Price Inflation – 1%	1.475
Corporate Risk Contingency Budget	0.093
Reduced Employer Pension Contributions	(0.700)
Energy Price Increases	0.200
Insurance Claims	1.000
Housing Benefit Admin Grant Reduction	0.500
Reduction in Community Buildings Running Costs	(0.180)
Delay in Realising Leisure/Culture Saving	0.616
CAS Demographic and Hyper Inflationary Pressures	1.000
Reduction in Borrowing Costs for Current Capital Programme	(0.250)
TOTAL	5.854

Additional Investment

- 102 The council has noted the consistency of response from MTFP consultation responses in relation to the winter maintenance budget. With this in mind the council has reviewed the winter maintenance budget, especially in light of the significant expenditure incurred over the last two winters. To ensure sufficient funding is available to finance a 'normal' winter's maintenance cost, additional investment of £1.3m is required.
- 103 The additional £93k of RSG announce in the final settlement has been included in the Corporate Risk Contingency Budget for 2014/15. The £93k will be removed from this budget in 2015/16 thereby reducing the 2015/16 savings target.
- 104 The council continues to invest in infrastructure. An additional £2m of revenue will be provided in the 2014/15 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.

Chairman and Vice Chairman Civic Expenses

105 Included in the budget for the Resources Service Grouping and specifically as part of the Legal and Democratic services budget are two allowances paid under the 1972 local government act the Chairman (£8,580) and the Vice Chairman (£4,220) to cover the expenses of their office. Until May 2013, these were paid in the form of quarterly lump sums to each of the civic dignitaries. On 17 December 2013, the Constitution Working Group agreed to recommend to Council that the Chairman's allowance be transferred to the Civic Events Budget and that the Chairman's hospitality budget should be renamed "Civic Expenses" with the Vice Chairman's allowance also being transferred to that budget. Constitution Working Group also agreed that these allowances should no longer be paid in the form of lump sums and should be used for the purposes of meeting reasonable out-of-pocket expenses of the Chairman and Vice-Chairman arising from the Civic Events or Civic expenses, under the administration of the Member Support Team.

Savings Methodology

106 The council's strategic approach to achieving savings for the previous MTFP (3) period 2013/14 to 2016/17 was to set out in the approved Budget report to Council on 20 February 2013. At that time the council was forecasting savings of £188.1m for the period 2011/12 to 2016/17.

107 To date, the council has delivered the savings required on schedule where each of the years 2011/12 to 2013/14 annual savings targets have been achieved totalling £113.9m.

108 During 2013/14, a range of factors have impacted upon the forecast level of Government cuts and the subsequent level of savings required across MTFP (4). These factors are detailed below:

- (i) the Government's March 2013 Budget announced an extra 1% funding cut in 2014/15 for local authorities;
- (ii) the 2015/16 Spending Round announcement in June 2013 identified a 10% funding cut for local authorities in 2015/16.
- (iii) the Local Government Finance Settlement Consultation published in July 2013 exemplified that in 2015/16 the funding reduction for the council was forecast to be 16% rather than 10%.

109 The savings plans for each Service Grouping for 2014/15 are detailed in Appendix 4. Service Groupings have received savings targets of £22.073m for 2015/16 and savings plans are being worked up and will be reported to Cabinet in the early summer of 2014 during the development of MTFP (5).

Table 11 – Service Grouping Savings Plan 2014/15 – 2016/17

Service Grouping	2014/15	2015/16	2016/17	TOTAL
	£m	£m	£m	£m
ACE	0.410	0.606	-	1.016
CAS	12.430	13.966	-	26.396
NS	3.767	5.581	-	9.348
RED	1.092	1.280	-	2.373
RES	2.893	1.574	-	4.467
Other	2.434	-	-	2.434
Savings to be identified	-	16.315	47.712	64.108
TOTAL	23.025	39.321	47.712	110.058

- 110 In addition to ongoing work in relation to the 2015/16 savings, work will also begin and continue to be worked up over the MTFP (5) process to identify the required savings for 2016/17.
- 111 The revised forecast saving for the period 2011/12 to 2016/17 is detailed below:

Table 12 – Total Savings 2011/12 to 2016/17

Period	Saving
	£m
2011/12 to 2013/14	113.9
2014/15 to 2016/17	110.1
TOTAL	224.0

2014/15 Net Budget Requirement

- 112 After taking into account base budget pressures, additional investment and savings targets, the council's recommended Council Net Budget Requirement for 2014/15 is £438.765m. The financing of the Net Budget Requirement is detailed below:

Table 13 – Financing of the 2014/15 Budget

Funding Stream	Amount
	£m
Revenue Support Grant	138.710
Business Rates	52.342
Business Rates – Top Up Grant	59.357
Council Tax	168.844
New Homes Bonus	6.784
New Homes Bonus Reimbursement	0.390
Education Services Grant	7.237
Section 31 – Small Business Rate Relief	2.194
Section 31 – Settlement Funding Adjustment	1.204
Section 31 – Empty Property and Retail Relief	1.703
TOTAL	438.765

- 113 The Gross and Net Expenditure Budget for 2014/15 for each Service Grouping is detailed in Appendix 5. Appendix 6 provides a summary of the 2014/15 budget by Service expenditure type, based upon the Chartered Institute of Public Finance (CIPFA) classification of costs.
- 114 The Government has 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 2014/15. This grant for Durham would be an estimated £2.04m. The Government has also confirmed that the Council Tax Referendum Limit for 2014/15 is 2%, therefore should the council agree to a Council Tax increase of 1.99% which would be below the referendum limit; this increase would generate additional Council Tax income of £3.29m in 2014/15.
- 115 The 2014/15 Council Tax Base which is the figure used to calculate council tax income forecasts, was approved by Cabinet on 19 December 2013 as 129,047.4 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

- 116 **It is recommended that Members:**
- (i) approve the identified base budget pressures included in paragraph 101;**
 - (ii) approve the investments detailed in the report;**
 - (iii) approve the treatment of the Chairman and Vice-Chairman's expense allowance proposed by the Constitution Working Group;**
 - (iv) approve the savings plans detailed in the report;**
 - (v) approve a 1.99% increase in Council Tax;**
 - (vi) approve the Net Budget Requirement of £438.765m.**

How the Medium Term Financial Plan (MTFP (4)) – 2014/15 to 2016/17 has been Developed

- 117 The following assumptions have been utilised in developing the MTFP (4) Model:
- (i) Government grant reductions for the MTFP (4) period have been developed utilising information from the December 2013 Autumn Statement and the Local Government Finance Settlement which included provisional figures for 2015/16. The estimated grant reductions for 2015/16 and 2016/17 are as follows:

Table 14 – Forecast Government Grant Reduction in 2015/16 and 2016/17

Year	Basis	Amount
2015/16	Net Reduction in all Government Funding	40.315
2016/17	Net Reduction in all Government Funding	30.000

- (ii) forecast Pay and Price Inflation levels have taken into account the Government's 1% public sector pay cap assumptions for 2014/15 and 2015/16. They have also taken into account the reducing level of price inflation in the economy at the moment with the price inflation allowance being retained at 1.5% for both 2015/16 and 2016/17:

Table 15 – Pay and Price Inflation Assumptions

Year	Pay Inflation	Price Inflation
2014/15	1.0%	1.0%
2015/16	1.0%	1.5%
2016/17	1.5%	1.5%

- (iii) continuing budget pressures in relation to Employer Pension Contributions, Concessionary Fares, Energy Prices and CAS Demographic and Hyper-Inflation in relation to adult social care;
- (iv) costs associated with the Council Housing Stock Transfer if the bid is successful and the tenants vote in favour of stock transfer;
- (v) increased Employer National Insurance costs when the Government's national 'Single Pension' is introduced in 2016/17;
- (vi) additional costs associated with the implementation of Single Status. These additional costs are presently being met from the Equal Pay Reserve which is forecasted to run out in 2015/16;
- (vii) continuing need to support both the current and additional capital programme;
- (viii) Council Tax increases are assumed to be 2% across the MTFP (4) period.

118 At this stage detailed savings plans need to be developed to achieve the following savings targets for 2015/16 and 2016/17.

Table 16 – Savings to be Identified

Year	Amount
	£m
2015/16	39.321
2016/17	47.712

119 Service Groupings are currently developing plans for £22.073m of additional savings for 2015/16 and will be brought before Cabinet in the early summer of 2014. Additional work will continue during MTFP (5) to identify savings for the forecasted budget gap for 2015/16 and 2016/17.

Financial Reserves

120 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 Reserve.
- (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.

121 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 reporting appropriately 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 £35m.

122 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.

123 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".

124 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.

125 The forecast balance on all reserves are reported to Cabinet every quarter as part of the Forecast of Outturn reports. Cabinet received the latest report on 20 November 2013. Since that time an adjustment to Reserves was reported to Cabinet on 18 December in relation to the MTFP Redundancy and ER/VR Reserve. In addition a range of reserves are being utilised to support the MTFP (4). Details can be found below:

- (i) **MTFP Redundancy and ER/VR Reserve** – this reserve was originally created in 2010 with a balance of £26.9m with the aim of covering the cost of all ER/VRs up to the end of MTFP (1) i.e. 31 March 2015. The forecast balance at the end of 2013/14 on this reserve is £2.558m. Although detailed plans are yet to be developed across MTFP (4) it was deemed prudent to replenish this reserve to provide confidence in the authority’s ability to finance future severance costs. Cabinet agreed on 18 December 2013 to transfer £15m into this reserve as detailed in Table 17. Having this reserve in place will be a major factor in managing the savings realisation process effectively across the MTFP (4) period. This reserve will continue to be closely monitored.

Table 17 – Reserve Transfers to Replenish MTFP Redundancy and ER/VR Reserve

Reserve	Amount
	£m
Service Grouping Cash Limits	10.000
General Reserve	5.000
TOTAL	15.000

- (ii) **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 £3.15m is to be utilised in 2014/15.
- (iii) **Equal Pay Reserve** – the cost of successfully implementing Single Status in order to put in place a new pay and grading structure that satisfies all equal pay legislation has proven to be greater than the £6.5m budget that was made available. 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. A sum of £3.475m is utilised in 2014/15.
- (iv) **Cash Limit Reserves** – Service Groupings continue to utilise Cash Limit Reserves to enable reprofiling of when MTFP savings are realised. A sum of £2.617m is to be utilised in 2014/15.
- (v) **General Reserves** – the implementation of Garden Waste charging is to be introduced from 1 April 2015 rather than 1 April 2014, General Reserves of £0.933m will be utilised in 2014/15 on a ‘one off’ basis to finance this delay.
- (vi) **Procurement Reserve** – procurement savings of £0.640m have been identified to support MTFP (4). Originally it was expected that these

would be achieved in 2014/15. However, it is now envisaged that £104k of these identified savings will not be delivered until 2015/16 and the Procurement Reserve will cover the cost of this shortfall on a 'one off basis' in 2014/15.

- (vii) **Other Earmarked Reserves** – Service Groupings have plans to expend £1.409m of other Earmarked Reserves in line with each Earmarked Reserves protocol.

126 The table below provides an update on the forecast Reserves position as at 31 March 2014. School Reserves are not included below as they can only be utilised for schools

Table 18 – Forecast Reserves Position

Reserves	Quarter 2	ER/VR	MTFP (4) Support	Planned Expenditure	Revised Balance
	£m	£m	£m	£m	£m
General Reserve	29.314	(5.000)	(0.933)	-	23.381
Cash Limit	31.151	(10.000)	(2.437)	(0.180)	18.534
Earmarked Reserves	54.768	15.000	(6.732)	(1.409)	61.627
TOTAL	115.233	-	(10.102)	(1.589)	103.542

127 It is recommended at this stage that the council's Reserve Policy is left broadly unchanged as detailed in paragraph 121. The limit of the General Reserve range should be amended to £22m to £33m to reflect the reduced Net Budget Requirement of the council.

128 A balanced MTFP (4) Model has been developed after taking into account the assumptions detailed in this report. The MTFP (4) model is summarised below with the full detail attached at Appendix 7.

Table 19 – MTFP (4) Summary of Savings Target Position

	2014/15	2015/16	2016/17	TOTAL
	£m	£m	£m	£m
Reduction in Resource Base	14.871	28.164	26.578	69.613
Budget Pressures	8.154	11.157	21.134	40.445
Savings Required	23.025	39.321	47.712	110.058

Recommendations

129 **It is recommended that Members:**

- (i) **note the forecast 2014/15 to 2016/17 MTFP (4) 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 Resources and to Cabinet;

- (iii) 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 £35m.

Capital Budget

- 130 The 2013/14 Capital Budget of £173.842m was approved by Cabinet on 20 November 2013. 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 2013/14 to 2016/17 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 20 – Current Capital Budget 2013/14 to 2016/17

Service Grouping	2013/14	2014/15	2015/16	2016/17	TOTAL
	£m	£m	£m	£m	£m
ACE	2.231	2.631	1.155	-	6.017
CAS	57.985	51.237	13.690	0.087	122.999
NEI	30.628	35.122	4.410	11.429	81.589
RED	37.279	49.767	4.575	0.263	91.884
RES	5.267	10.673	9.121	2.604	27.665
TOTAL	133.390	149.430	32.951	14.383	330.154
Financed by:					
Grants and Contributions	62.319	65.207	5.696	1.515	134.737
Revenue and Reserves	7.754	1.399	-	-	9.153
Capital Receipts	10.010	10.000	-	-	20.010
Capital Receipts - BSF/Schools	6.150	10.474	1.600	-	18.224
Borrowing	47.157	62.350	25.655	12.868	148.030
TOTAL	133.390	149.430	32.951	14.383	330.154

- 131 When setting the MTFP (3) Capital Programme in February 2013, Council agreed to approve a capital programme that included the following level of additional schemes.

Table 21 – Additional Capital Programme Approved in MTFP (3)

Year	Amount
	£m
2013/14	20.040
2014/15	47.303

- 132 In agreeing the 2014/15 £47.303m programme, it was estimated that the following levels of capital grant would be received:

Table 22 – Estimated Level of Capital Grant for 2014/15

Grant	Source	Estimated Grant
		£m
LTP – Core Funding	DfT	14.255
LTP – Additional Highways Funding	DfT	1.007
General Social Care	DoH	1.548
School Capitalised Maintenance (Non DSG)	DfE	8.000
TOTAL		24.810

Capital Consideration in the MTFP (4) Process

133 Service Groupings developed capital bid submissions during the Summer 2013 alongside the development of revenue MTFP (4) 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.

134 Whilst considering Capital bid proposals, MOWG recognised 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.

Capital Grant Allocations

135 The table overleaf provides details of the Capital Grants confirmed for 2014/15 and the indicative allocation for 2015/16:

Table 23 – Capital Grants Utilised to Support the Capital Programme

Capital Grant	Source	2014/15	2015/16
		£m	£m
Grants Confirmed:			
LTP – Core Funding	DfT	14.255	-
LTP – Additional Highways	DfT	1.007	-
General Social Care	DoH	1.548	-
School Capitalised Maintenance	DfE	6.672	-
School Devolved Capital	DfE	1.428	-
Free School Meals Support	DfE	1.040	-
Disabled Facilities Grant	DCLG	2.422	-
Indicative Grants:			
LTP – Highways Maintenance	DfT	-	13.480
LTP – Integrated Transport	DfT	-	2.566
School Capitalised Maintenance/Basic Need	DfE	-	7.200
TOTAL		28.372	23.246

136 The School Capitalised Maintenance grant has been confirmed at £6.672m rather than the £8m previously assumed. The MTFP(4) capital budget for 2014/15 has therefore been reduced by £1.328m accordingly.

137 The Local Transport Plan (LTP) capital funding is forecast to increase in 2015/16. The Government announced increase allocations for highways maintenance in the 2015/16 Spending Round. The indicative figures above are based upon the increased allocation.

Capital Receipt Forecast

138 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. 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 2015/16, which will support the additional schemes for approval.

139 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.

Self Financing Schemes

140 In many circumstances, capital investment will generate revenue efficiencies. Self financing capital schemes are approved where the revenue saving or increased income stream is sufficient enough to cover the annual borrowing cost which finances the capital investment.

141 In total it is recommended that £0.480m of schemes are approved in 2014/15 and £0.625m of schemes in 2015/16.

Approval of Additional Capital Schemes

- 142 The need to invest in Capital Infrastructure during the economic downturn is seen as an essential means of regenerating the local economy and for 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.
- 143 After considering all relevant factors, MOWG have recommended that the following value of schemes be approved for inclusion in the Capital Programme. Full details of these schemes can be found in Appendix 9.

Table 24 – Additional Capital Schemes for 2014/15 and 2015/16

Service Grouping	2014/15	2015/16
	£m	£m
ACE	0.840	2.100
CAS	6.930	7.200
Neighbourhoods	3.718	18.598
RED	6.502	18.231
Resources	0.200	1.335
TOTAL	18.190	47.464

- 144 The additional 2014/15 schemes can be afforded by utilising unapplied capital grants and utilising the 2014/15 prudential borrowing allowance not already committed in MTFP (3). The new 2015/16 schemes can be afforded by utilising capital grants, capital receipts and prudential borrowing.
- 145 The new schemes detailed in Appendix 9 will ensure the council continues to invest in priority projects and essential maintenance programmes. Examples of the additional investments are detailed below:
- (i) **Highways Maintenance (2014/15 - £2m; 2015/16 - £16.236m)**

In addition to the £13.579m approved in MTFP (3) for 2014/15 an additional council contribution of £2m is recommended. In 2015/16 a council contribution of £2.756m is recommended in addition to the estimated £13.48m Department of Transport capital grant. These additional capital contributions align with the continued public support shown through the consultation processes for highways maintenance. In 2015/16, £0.756m of the additional council investment relates to the £6k highways capital budget formerly allocated to each of the council's 126 Members. From 2014/15 onwards, Members have agreed for this sum to be transferred into the core highways maintenance capital budget to enable the network to be maintained more effectively and to generate a £0.25m revenue saving via the requirement to carry out a significantly reduced number of highways design schemes. The current 2014/15 LAMA capital budget will be transferred into the Highway Maintenance budget.

(ii) **Schools Basic Need - Council Contribution (2014/15 - £0.868m)**

Schools Basic Need investment is required when a school does not have sufficient school place capacity for all of the families submitting applications. After a number of years of decline, the number of pupils in Durham schools is increasing. Over the next five years it is forecast that over 50 schools in the county will have a need for additional school places. In the past the Government has provided a grant to enable investment to take place. In 2012/13, the council received a grant of £2.235m. The Government is now targeting this grant to areas of significant population growth with Durham receiving significantly reduced allocations. Approved allocations received are as follows:

Table 25 – Basic Need Grant Allocations

	£m
2013/14	0.217
2014/15	0.488
2015/16	0.513

The 2014/15 sum of £0.488m is already pre-committed to schemes but a number of schools have significant capacity problems. With this in mind, investment has been approved at the following schools:

Table 26 – Additional School Places

School	Additional Places	Amount
		£m
Edmonsley Primary	13	0.062
Easington CE Primary	30	0.455
Neville's Cross Primary	20	0.351
TOTAL	63	0.868

It is likely that the need to invest in school capacity will become a major issue for the council over the next five years. CAS is developing a medium term strategy to determine the investment required which will be utilised to negotiate with the Government.

(iii) **Flood Prevention (2014/15 - £1m; 2015/16 - £1.05m)**

Recent flooding incidents have had a significant impact upon the public. Investment in flood prevention will target high risk areas and protect the public.

(iv) **Durham Bus Station (2014/15 - £1m; 2015/16 - £4m)**

This investment will enable the replacement and relocation of the current bus station. This will enable the redevelopment of North Road including the current bus station site.

(v) Site Assembly (2014/15 - £1. 2m; 2015/16 - £1.03m)

The council is looking to assemble land sites for economic regeneration in Peterlee, Crook, and Seaham. The council is well placed in this regard and ensures important development sites are made available to the market.

146 The 2014/15 to 2016/17 capital budget will be as follows:

Table 27 – New MTFP (4) Capital Programme 2014/15 to 2016/17

Service Grouping	2014/15	2015/16	2016/17	TOTAL
	£m	£m	£m	£m
ACE	3.471	3.255	-	6.726
CAS	56.839	20.890	0.087	77.816
NEI	38.840	23.008	11.429	73.277
RED	56.269	22.806	0.263	79.338
RES	10.873	10.456	2.604	23.933
TOTAL	166.292	80.415	14.383	261.090
Financed by:				
Grants and Contributions	69.055	28.342	1.515	98.912
Revenue and Reserves	4.993	-	-	4.993
Capital Receipts	10.000	-	-	10.000
Capital Receipts - BSF/Schools	10.474	11.600	-	22.074
Borrowing	71.770	40.473	12.868	125.111
TOTAL	166.292	80.415	14.383	261.090

Recommendations

147 It is recommended that Members:

- (i) approve the revised 2013/14 Capital Budget of £133.390m detailed in Table 20;
- (ii) approve the additional schemes detailed in Appendix 9 be included in the capital budgets. These schemes will be financed from the additional capital grants, from capital receipts, prudential borrowing and from Service Grouping revenue budget transfers;
- (iii) approve the MTFP (4) Capital Budget of £261.090m for 2014/15 to 2016/17 detailed in Table 27.

Saving Proposals for 2014/15

148 A list of the saving proposals for 2014/15 is presented at Appendix 4. These are summarised for each service grouping in the next sections of the report.

149 The strong focus on planning means that many of the proposals that affect frontline services are already subject to detailed consultation in order to shape how the savings can be delivered. These include:

- (i) Street lighting
- (ii) Charging for garden waste
- (iii) Residential care
- (iv) Lunchtime school crossing patrols
- (v) Care Connect
- (vi) Customer Access Points

Assistant Chief Executive's

- 150 Spending reductions of £3.4m have been achieved over the course of MTFP (1) – (3). A further reduction of £0.41m is required in 2014/15.
- 151 The savings made to date have been made through reviewing each of the services within the Service Grouping to identify how to work more efficiently whilst continuing to provide support to the council through a period of considerable change.
- 152 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.
- 153 Much of the service grouping's savings have been realised through reduction of management and support services. All of the savings proposed for 2014/15 will come from non-frontline services and include further savings from management, AAP and partnership administration and non-staff budgets within the Civil Contingencies Unit.
- 154 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. Total budgets available for AAPs and members will not be altered in 2014/15. To achieve this, it will be necessary to move £840K from the council's revenue budget to the capital programme.
- 155 Higher reductions have been made and proposed in performance management, policy and communications in line with the consultation findings.

Children and Adults Service

- 156 Spending reductions of over £51m have been achieved over the course of MTFP (1) – (3). A further reduction of £12.4 million is required in 2014/15.
- 157 The service has been impacted by a significant amount of change both internally and externally during the last few years. External factors include ageing demographics, NHS changes, social care reform, changes in funding for schools and new inspection frameworks for children's social care and schools.

- 158 By bringing together the old Children and Adults Service Groupings into a new single Service Grouping, savings have been made in management and support services and further savings have been identified in these areas for 2014/15.
- 159 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, consistency in the application of eligibility criteria, creation of integrated teams including some with the health service and through better procurement of services.
- 160 Given the nature of the service grouping, the 2014/15 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.
- 161 Some of the 2014/15 proposals that affect frontline services are savings arising from policy changes made in previous years. This includes home to school transport, review of social care charging and a review of day care.
- 162 Consultation has already begun on the review of residential care and changes have been agreed to non-assessed services which in 2014/15 in the main relates to the Care Connect service.
- 163 Whilst it is clear that savings proposals in this area affect vulnerable people, all efforts are being made to minimise 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

- 164 Spending reductions of £18.1m have been achieved over the course of MTFP (1) – (3). A further £3.1m is required in 2014/15.
- 165 The service has been able to make significant savings through the integration of services following the creation of the unitary council in 2009. Examples include the reviews of waste collection and leisure services. The latter has also seen the community take over the running of leisure centres which has enabled service levels to be maintained as far as possible.
- 166 Other savings which have been made reducing the impact upon front line services include reviewing grounds maintenance, rationalising the council's fleet of vehicles, savings in procurement and reductions in management and support services.
- 167 Proposals for 2014/15 continue to prioritise savings from non-frontline services. However, given the nature of the service, some impact on frontline services has been identified.

- 168 Most of the 2014/15 proposals that arise from changes made in previous years relate to back office support, restructures and reductions in supplies and services and do not affect front line services.
- 169 In addition, early planning means that some of the proposals have already been or are currently subject to consultation. This includes lunchtime school crossing patrols and street lighting.
- 170 The proposals include implementing charging for garden waste from April 2015, subject to the consideration of consultation results.
- 171 The proposals align with the results of consultation. Higher levels of savings have been achieved for waste disposal through a renegotiation of the waste contracts. Spending on winter maintenance will increase.

Regeneration and Economic Development

- 172 Spending reductions of £18m have been achieved over the course of MTFP (1) – (3). A further £1.1m is required in 2014/15.
- 173 Front line service provision was heavily affected by the removal of the Working Neighbourhoods Fund and Local Enterprise Growth Initiative (LEGI) which reduced the advice and support available to unemployed people and those looking to start a new business in an economic recession. The Government's deletion of these Areas Based Grants occurred in 2011/12 and amounted to £12m.
- 174 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.
- 175 For 2014/15 all of the savings proposed will be delivered from further staffing reductions through vacancy management and restructuring alongside reductions in supplies and services and income generation.
- 176 The consultation in 2010 and again in 2013 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

- 177 Spending reductions of £7.9m have been achieved over the course of MTFP (1) – (3). A further £2.9m is required in 2014/15.
- 178 Given the nature of the service grouping, nearly all of the savings made are in management and support service costs including the unitisation of Finance and HR. The service has also benefited from new technologies including financial management, revenues and benefits and HR systems.
- 179 The proposed savings for 2014/15 will continue to be made in the areas where savings have been made previously together with an increase in income through the provision of ICT services to external bodies. There will be

an impact on frontline services as the Revenues and Benefits service will be reviewed.

180 The Service Grouping is also planning to deliver on behalf of the council a number of corporate savings in 2014/15 including savings in procurement, photocopying and printing and through the unitisation of Health and Safety.

181 The council has consistently prioritised higher savings targets from Resources in line with the views of the public.

Recommendations

182 **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

183 This section updates members on the outcomes of the equality impact assessment of the MTFP (4) and summarises the potential cumulative impact of the 2014/15 proposals.

184 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, and
- (iii) ensure that we avoid unlawful discrimination as a result of MTFP decisions.

185 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; and
- (iii) foster good relations between those who share a protected characteristic and those who do not.

- 186 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."
- 187 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.
- 188 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.
- 189 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.
- 190 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 2014/15 Savings Proposals

- 191 A total of 41 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 received:

ACE	1
CAS	21
Neighbourhoods	12
RED	4
Resources	3

- 192 The documentation has been made available for Members via the Member Support team ahead of the County Council decision-making meeting .

Summary of Equality Impact of 2014/15 MTFP proposals

- 193 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. In some cases the effect of the saving would apply to all service users but could have a greater potential impact for some, for example, increased charges would apply to all but could impact more on people with low income levels including older people, disabled people and women whose employment is limited by care responsibilities. Other proposals relating to specific services would have a more focused impact, for example, the review of Care Connect services for adults is likely to impact on older and disabled people.
- 194 ACE proposals are continuations of previous savings except for a management review which could potentially impact on any of the protected characteristics in relation to staff changes. A more detailed assessment will be completed as the options are developed. The remaining proposals do not require an assessment as they relate to residual staffing savings, efficiencies in supplies and services and the use of reserves.
- 195 CAS proposals include impacts on age, disability and gender:
- (i) the current consultation on options for the future of in-house social care provision has identified impacts on staff, service users, their families and carers. The impact assessment identifies age, disability and gender as the main protected characteristics which would be affected because the consultation on options is likely to create uncertainty around the future of the homes. The majority of service users have disabilities and are older people. Users of day services at these premises are also considered in the consultation process. A further report and final decision will be made following the consultation.
 - (ii) the changes to non-residential care charging which were agreed in October 2013 mean that some people are paying an increased cost and others who previously were not required to pay must now contribute to their care costs. Analysis showed that the majority of service users are women and most are aged over 75, all have some level of disability or age related health condition. The mitigating actions include allowances made in the financial assessment where there is evidence of service users using their savings to alleviate the impact of

their disability, and waiving payment where the risk associated with a service user stopping a service would be unacceptably high.

- (iii) a review of the Care Connect service was considered by Cabinet in December 2013. The service is generally provided to older people and those who are vulnerable, for example as a result of a disability. There are a larger number of older women in the county's population so the likelihood is that more women will be affected by changes to this service than men. The gender profile of service users shows that just over 63% of service users were female and 59% were aged over 75. The impact is mitigated by maintaining the response side of the service which will still provide 24 hour / 7 day week telephone monitoring and mobile response.
- (iv) the equality impact assessment in relation to the closure of the non-statutory CATS service has already identified potential impacts for children, young people, their families/carers and the staff employed within the CATS service. The service offers leisure opportunities to disadvantaged or disengaged young people. The impact will be mitigated through promoting access to alternative leisure services available to all children and young people.
- (v) existing proposals from previous years continue to produce savings in 2014/15, including changes to stairlift maintenance contracts, day services, outdoor education, school music services and home to school/college transport. The closure of outdoor education centres and restructure of music services have impacted on staff as well as children and their families/carers through reduced access or changes to availability. Reviewed assessments show that mitigating actions have been implemented in all cases:
 - **Stairlift maintenance contracts** – Impacts were identified on disability, gender and age. All lift customers who have a warranty that runs out on or before 1 April 2014 have been contacted by letter to remind them of the decision made in May 2012. Customers have a choice of withdrawing from DCC lift maintenance and making their own arrangements or retaining their DCC lift maintenance service (subject to meeting eligibility for social care). Customers also have a choice to pay their maintenance as one off payment; in instalments or to be financially assessed for how much of the annual charge they can afford to pay.
 - **Day services** – The transition to move existing day services into leisure centres was completed in 2013. The assessment identified a potential impact in relation to disability as all clients have some form of disability and moving to new venues may have been difficult for some. Mitigating actions included introductory visits, improving space and layouts, making leisure facilities more accessible. Anecdotal feedback suggests that many prefer the new arrangements.

- **Home to school/college transport** – changes to the policies for post 16; distance eligibility; denominational, associated and concessionary transport were implemented in previous years. The original assessment identified potential impacts on age, gender, disability and religion or belief for children, young people and families/carers. Mitigations included, for example, supporting faith schools to make alternative arrangements where necessary.

- 196 Neighbourhood Services proposals mainly relate to staffing restructures, ongoing savings from contracts and increased income. The assessments indicate potential impacts across any characteristic in relation to staffing reviews whilst there are potential service impacts on age, gender and disability.
- (i) the review of Customer Access Points was considered by Cabinet on 15 January 2014. The assessment identifies potential impacts in relation to the proposed options. Given the range of enquiries the most likely impacts were on gender, disability and age. National and local evidence suggests that women, older and younger people and disabled people are more likely to rely on local services for a number of reasons including access to transport, caring responsibilities, ease of access, lack of internet access and computer skills. None of the options was considered likely to have a particular impact on race, religion, belief, transgender status or sexual orientation;
 - (ii) changes to school crossing patrols have also been agreed. The assessment identified potential impacts on children and their families/carers in relation to age, gender and disability where either disabled children or disabled carers may need additional support crossing the road. The impact is mitigated by removing lunchtime patrols where pupils are not allowed out of school unaccompanied;
 - (iii) arrangements for removal of street lighting in areas where they are not needed and the implementation of “dimming” in some areas at certain times have also been agreed. The removal or dimming of lights has the potential to impact protected characteristics, for example, older people, students and children may feel more vulnerable in terms of personal safety and security. The impacts are mitigated by maintaining a minimum light level for dimmed lights which is likely to be unnoticed by the majority of people and conducting risk assessments before removing lights;
 - (iv) a review of income across the Service is likely to result in new or increased charges which will have impacts for those on low incomes. National and local evidence suggests that some older people, disabled people and women have reduced disposable incomes as a result of employment patterns, lack of savings or additional costs in relation to care responsibilities or disability. Those of working age who have been affected by welfare reform changes may also have reduced income levels. The review will include burial fees which apply to all but may impact specifically on people from religious or ethnic backgrounds who require burial as part of their belief;

- (v) restructures and staffing reviews will be carried out across heritage and culture, libraries and administration of the Local Area Measures Allowance (LAMA) budget. The changes are likely to affect staff so could impact on any of the protected characteristics. All staffing changes follow agreed corporate procedures to ensure fair treatment and more detailed impact assessments will be carried out for individual proposals as they develop. Any evidence of service impact will also be considered where appropriate;
 - (vi) an impact assessment for garden waste charges has also been provided to Members for information, this saving is planned to be implemented in 2015.
- 197 RED proposals relate to a further staffing restructure, residual savings as a result of previous staffing restructures and additional income from existing transport and planning charges.
- 198 Resources proposals also relate to staffing restructures along with efficiencies from supplies and services.

Cumulative Impacts

- 199 As in previous years the impacts are 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. Overall this is more likely to affect those on low income, people without access to personal transport and those reliant on others for support, with particular impacts on disability, age and gender. 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.
- 200 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.
- 201 There are a number of 2014/15 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.
- 202 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

- 203 The equality impact assessments are vital in order to understand potential outcomes for protected groups and mitigate these where possible.
- 204 The main equalities impacts of the 2014/15 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.

Recommendations

- 205 **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

- 206 The council's original estimate of 1,950 reductions to posts by the end of 2014/15 is still expected to be accurate. Further work will be carried out during the development of MTFP (5) to estimate a revised figure for 2016/17.
- 207 In achieving this, the council has ensured that a proactive approach has been established in relation to managing the workforce changes in order to take all possible steps to avoid compulsory redundancy, and minimise the impact on the workforce. Managers are given HR support to enable them to take a strategic approach towards planning the change that is aimed at forecasting employee turnover, keeping posts vacant where these arise in anticipation of change, and seeking volunteers for early retirement and voluntary redundancy on an ongoing basis.
- 208 In addition, the way that work is organised is reviewed by service groupings to ensure that systems and processes maximises the capacity of the remaining employees to deliver the services as changes are implemented.
- 209 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

- 210 The Localism Act 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.
- 211 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.
- 212 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; and

- (vii) the publication of and access to information relating to remuneration of Chief Officers.
- 213 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 caps the fees of the Returning Officer and deputies at half the national rate, previously used as the basis of Returning Officer fees in previous council elections.
- 214 The Pay Policy Statement at Appendix 10 is for Council consideration and outlines the details for the authority for 2013/14, in line with the above requirements.

Recommendations

215 **It is recommended that Members:**

- (i) Approve the pay policy statement at Appendix 10.**

Risk Assessment

- 216 The council had previously recognised that a wide range of financial risks needed 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 (4) period. Some of the keys risks identified include:
- (i) ensure the achievement of a balanced budget and financial position across the MTFP (4) 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 2015/16 indicative figures included in the Local Government Finance Settlement with the 2016/17 assumptions based upon Government funding cuts continuing in the future in line with recent years. This level of reduction will be required to achieve the £25bn of public expenditure reductions in 2016/17 and 2017/18 recently detailed by the Chancellor of the Exchequer.
 - (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 (4);

- (vi) the MTFP (4) 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. May council contractors would be likely to request above inflation contract price increases if the Minimum Wage increased at a level above inflation;
- (vii) the Government has indicated that consideration is being given to introducing revised methodologies for apportioning health funding across the country. Whilst this could impact significantly upon Clinical Commissioning Groups (CCGs), there could also be a detrimental impact upon the council due to the significant health income streams but particularly the Public Health Grant.

Recommendations

217 It is recommended that Members:

- (i) note the risks to be managed over the MTFP (4) period.**

Dedicated Schools Grant (DSG) and School Funding – 2014/15

- 218 The Government implemented wide ranging reforms to the school funding formula in 2013/14. The council's discretion in terms of funding allocations to individual schools is much reduced and these are now much more pupil number driven. The reforms affected all schools (including academies) and are the precursor to a national funding formula being introduced from 2015/16 onwards.
- 219 It was initially anticipated that the formula adopted in 2013/14 would remain unchanged, but further changes have been introduced for 2014/15. Consultation on the impact of these changes was undertaken with both individual schools and the Schools Forum over the summer and autumn. Additional consultation was undertaken with nursery schools about their formula and with special schools about planned places for 2014/15.
- 220 Transitional protection from the impact of the formula changes is provided through the Minimum Funding Guarantee (MFG), which caps the increase to those that gain and restricts the impact on those that lose out through the new formula funding factors. The MFG only protects schools from the impact of the formula changes, not from the impact of falling roll numbers of pupils and is designed so that over time the amount of protection reduces. The MFG (which currently caps any reduction at a maximum of 1.5%) will continue when the national funding formula is implemented in 2015/16, but it is not clear how much protection will be included at this stage.
- 221 Changes have been made to the primary and secondary formula for 2014/15, partly in response to changes imposed by the Department for Education and partially in response to a need to re-allocate funding from primary and secondary schools to Special Educational Needs (SEN) provision. Nationally imposed changes include a reduction in the lump sum allowable per school, changes in the qualifying criteria for prior attainment funding and changes in the operation of the Growth Fund to provide additional support in ways that

cannot be provided directly through the formula. Other than these necessary changes there have been no changes to the formula factors compared to 2013/14.

- 222 The DSG is notionally split into three 'blocks' being: Early Years, High Needs and Schools. The High Needs Block provides for pupils with high cost SEN (requiring provision costing more than £10,000 per year). 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. DSG funding for 2014/15 is as follows:

Table 28 – DSG Funding for 2014/15

DSG Block	Amount per pupil £/pupil	Pupils	DSG Allocated £m	Additional Funding £m	Total DSG Allocation £m
Schools Block	4,572.50	61,477	281.104	0.093	281.197
Early Years Block	3,866.10	4,233	16.365	7.457	23.822
High Needs Block	-	-	44.967	-	44.967
Total DSG			342.436	7.550	349.986
Pupil Premium				25.481	25.481
Free School Meals Funding	TBC	TBC	TBC	TBC	TBC
Total			342.436	33.031	375.467

- 223 Primary and secondary formula funding for Academies in County Durham totals £66m. This funding is recouped by the Education Funding Agency and allocated directly to the individual schools, leaving £283.986m of DSG funding payable to the council.
- 224 Funding is being provided through the DSG to provide free early education places for eligible 2-year-olds from lower income households. Currently those eligible equates to around 20% of 2 year olds but from September 2014 the eligibility will be extended to reach approximately 40% of 2 year old children. Funding of £7.457m is provided for this purpose.
- 225 Pupil premium for schools and academies in Durham for 2013/14 is £20.67m. For 2014/15 the premium per pupil for primary pupils is increasing from £900 to £1,300; for secondary pupils it is increasing from £900 to £935; and for looked after children from £900 to £1,900. Pupil numbers for 2014/15 are not yet confirmed, but it is estimated that the premium for schools and academies in Durham will be in the region of £25.5m for 2014/15.
- 226 In September 2013 the Government announced that from September 2014, it will fund all state-funded schools in England to provide every child in reception, year 1 and year 2 with a nutritious meal at lunch time. On 24 January 2014, the Government announced that funding for this initiative would be based upon the October 2013 census at £2.30 per meal. It is estimated that a grant of circa £4m will be received for the period September 2014 to

July 2015. Capital Funding for Durham of £1.04m has been announced for maintained schools and £0.251m for voluntary aided schools with further funding available for academies to enable the infrastructure to be in place to cope with the additional demand for meals. Durham is in a good position having managed a large scale pilot project for provision of free school meals for primary aged pupils from September 2009 to July 2011.

Recommendations

227 It is recommended that Members:

- (i) note the position on the Dedicated Schools Grant.**

Prudential Code

228 This section outlines the council's prudential indicators for 2014/15 to 2016/17 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.

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

Recommendations

230 It is recommended that Members:

- (i) agree the Prudential Indications and Limits for 2014/15 – 2016/17 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 2014/15 contained in the Treasury Management Strategy (Appendix 11 and the detailed criteria included in Appendix 11).

Summary of Recommendations

231 This section of the report details all the recommendations from within the body of the report.

232 It is recommended that Members:

a) Consultation

- (i) note the outcome of the consultation carried out as part of the development process for the 2014/15 budget and for future budgets.
- (ii) note that the suggestions made by the public to help manage the budget reductions have been considered by the council.
- (iii) note the feedback from partners and Elected Members;
- (iv) agree that the council continue to engage with the public in future budget setting processes and prior to implementing changes to frontline services.

b) 2014/15 Revenue Budget

- (i) approve the identified base budget pressures included in paragraph 101;
- (ii) approve the investments detailed in the report;
- (iii) approve the treatment of the Chairman and Vice-Chairman's expense allowance proposed by the Constitution Working Group;
- (iv) approve the savings plans detailed in the report;

- (v) approve a 1.99% increase in Council Tax;
- (vi) approve the Net Budget Requirement of £438.765m.

c) MTFP (4)

- (i) note the forecast 2014/15 to 2016/17 MTFP (4) 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 Resources and to Cabinet;
- (iii) 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 £35m.

d) Capital Budget

- (i) approve the revised 2013/14 Capital Budget of £133.390m detailed in Table 20;
- (ii) approve the additional schemes detailed in Appendix 9 be included in the capital budgets. These schemes will be financed from the additional capital grants, from capital receipts, prudential borrowing and from Service Grouping revenue budget transfers;
- (iii) approve the MTFP (4) Capital Budget of £261.090m for 2014/15 to 2016/17 detailed in Table 27.

e) Savings Proposals for 2014/15

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

f) Equality Impact Assessment

- (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.

g) Workforce Considerations/Pay Policy

- (i) approve the pay policy statement at Appendix 10.

h) Risk Assessment

- (i) note the risks to be managed over the MTFP (4) period.

l) Dedicated Schools Grant (DSG) and School Funding – 2014/15

- (i) note the position on the Dedicated Schools Grant.

j) Prudential Code

- (i) agree the Prudential Indications and Limits for 2014/15 – 2016/17 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 2014/15 contained in the Treasury Management Strategy (Appendix 11 and the detailed criteria included in Appendix 11).

Contact:	Jeff Garfoot	Tel: 03000 261946
	Gordon Elliott	Tel: 03000 263604
	Jenny Haworth	Tel: 03000 268014
