

County Council

22 February 2017

Medium Term Financial Plan 2017/18 to 2019/20 and Revenue and Capital Budget 2017/18



Report of Cabinet

Purpose of the Report

- 1 To provide County Council with the financial details of Cabinet's budget recommendations for the 2017/18 Revenue and Capital Budget and Medium Term Financial Plan MTFP(7) 2017/18 to 2019/20.

Executive Summary

- 2 This report has been prepared without the Council having received confirmation of the final settlement which will not be received until after the deadline for issuing Council papers. Council is therefore advised that in the event the final settlement is not received prior to the Council meeting, the report contains a delegation to the Corporate Director Resources to make adjustments to ensure the budget is balanced in consultation with the Cabinet Portfolio Holder for Finance.
- 3 The financial outlook for the Council and the whole of local government remains extremely challenging. The Council has faced government funding reductions since 2010/11 and they will continue until 2019/20. It is possible however that reduction could continue beyond this point.
- 4 The Chancellor of the Exchequer's Autumn Statement published on 23 November 2016 confirmed a significant deterioration in the public finances compared to the previous forecasts in the March 2016 Budget Statement. The Chancellor of the Exchequer announced that government borrowing over the period 2016/17 to 2020/21 would be £122billion higher than was forecast at the March 2016 Budget. This is as a result of the impact of Brexit (£58billion), the impact of new infrastructure investment (£23billion) and as a result of the economy generally not performing as well as had been expected (£41billion).
- 5 Rather than creating a national budget surplus in 2019/20 as forecast in the March 2016 Budget, the national budget will still have a £21billion deficit in 2020/21. This raises the possibility that austerity for public services could continue into 2020/21 and beyond.

- 6 It is apparent therefore that the financial landscape for local authorities will continue to be extremely challenging until at least 2019/20, but possibly beyond, resulting in the longest period of austerity in modern times. By 31 March 2017, the Council will have delivered savings of £185.7million since 2011. Based upon the provisional Local Government Finance Settlement, it is forecast that the savings required for the MTFP(7) period 2017/18 to 2019/20 will be £59.6million resulting in total savings over the 2011/12 to 2019/20 period of £245.3million.
- 7 The Final Local Government Finance Settlement confirmed a £21.1million reduction in Revenue Support Grant (RSG) for the Council in 2017/18. This reduction is in line with the four year settlement the Council has secured by submitting an Efficiency Plan to government. The four year settlement has confirmed additional RSG reductions in both 2018/19 and 2019/20.
- 8 In addition to the reductions in Revenue Support Grant, the Council will face additional reductions over the MTFP(7) period in specific grants in relation to New Homes Bonus, Public Health, Education Services and Benefit Administration. In addition, updated forecasts of demographic and other inflationary pressures arising from the National Living Wage have had to be accommodated within the MTFP(7) forecasts.
- 9 The delivery of additional savings of £59.6million across the next three years will be extremely challenging as the Council strives to protect front line services wherever possible.
- 10 The forecasted savings required to balance the 2017/18 budget are £36million. The 2017/18 savings requirement includes replacing the use of £4.2million of one off funds (Collection Fund surplus £2.6million and Budget Support Reserve £1.6million) utilised in 2016/17 to balance the budget. Savings plans included in this report amount to £23.4million with the £12.6million savings shortfall being covered by the utilisation of the Budget Support Reserve (BSR). The utilisation of the BSR will enable the Council to smooth reductions in expenditure and to help to reduce the impact of significant government funding cuts on key services.
- 11 The Council has consulted with the public and stakeholders as part of the MTFP(7) development. During autumn 2013, a major exercise was carried out which provided a clear steer on which services they felt should be prioritised for larger or smaller reductions. A refresh of this exercise was carried out in the autumn of 2014 and the autumn of 2015, with the public and partner agencies. In the 2016 consultation, the majority of responses indicated that the priorities established in 2013 were still appropriate.
- 12 The Council's MTFP strategy for the last five years has been to protect front line services as far as possible and the 2017/18 proposals are in line with this strategy. This strategy is becoming increasingly difficult to maintain over time with the Council's Transformation Programme being developed to ensure all options are exhausted to ensure front line services can be protected wherever possible. It is still likely, however, that front line services will become increasingly impacted over the next three years as the year on year impact of

the scale of the cuts impacts on the resources the Council has available to provide key services. This report summarises how the main proposals are in line with the Council's overall strategy and have been shaped by residents' and stakeholders' views with a high level analysis of the equalities impact.

- 13 Detailed savings proposals are included in the report for 2017/18 as shown at Appendix 4.
- 14 In the setting of council tax levels for 2017/18, consideration has been given to the significant financial pressures facing the Council and how best to meet these pressures. The Government has confirmed that the maximum the Council can increase Council Tax by is 1.99% without approval from a majority of council tax payers to increase it beyond this following public referendum. The Government has also confirmed the option to increase council tax by an additional 6% for an adult social care precept over the next three years (2017/18 – 2019/20). Prior to the settlement, the adult social care precept could be increased by 2% per annum, up to a maximum 6% over three years. Following the provisional settlement, there is now flexibility to accelerate the adult social care precept and Council Tax can be increased by up to 3% in both 2017/18 and 2018/19. The maximum increase in adult social care precept that can be applied in 2019/20 remains at 2% and the adult social care precept can increase by no more than 6% over the 2017/18 to 2019/20 period.
- 15 After considering the impact upon the Council's budget and upon council tax payers, this report recommends a 1.99% Council Tax increase in the Council's Band D Council Tax in 2017/18 which is below the 2% Referendum Limit. In addition, the report recommends a 2% increase to the Adult Social Care precept. The total increase will generate additional Council Tax income of £7.5million. The total increase would result in a Band D increase of £1.06 a week and an increase of 71 pence a week for the majority of Council tax payers in County Durham, who live in the lowest value properties (Band A).
- 16 Despite this very challenging financial period through the scale and sustained level of Government spending cuts and the impact on the Council's finances, this report includes some very positive outcomes for the people of County Durham including:
 - (a) continued support to protect working age households in receipt of low incomes through the continuation of the existing Council Tax Reduction Scheme where they will continue to be entitled to up to 100% relief against their council tax payments;
 - (b) ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people through the services we provide;
 - (c) continue to work with community groups to explore opportunities for the transfer of council assets so that they can be sustainable into the future through the 'Durham Ask' initiative;

- (d) significant investment in capital expenditure in line with the Council's highest priority of regeneration in order to protect existing jobs and create as many new jobs as possible including investing in our town centres, industrial estates and infrastructure including new transport schemes and maintenance of our highways and pavements. In total, additional capital investment of £68million is recommended in this report.

17 As outlined in previous MTFP reports, equality impact assessments are also summarised to inform the consultation and subsequent decision making. Workforce implications arising from proposals for 2017/18 savings have been analysed and the projections for the number of posts that will have been removed as a consequence of austerity up to the end of 2017/18 have been increased to an estimated 2,674 posts.

Background

18 The Council's MTFP(7) is aligned to the Council Plan, which sets out the Council's strategic service priorities. 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.

19 Looking back to MTFP(1), the following drivers for the Council's financial strategy were agreed by Cabinet on 28 June 2010, which still underpin the strategy in MTFP(7):-

- (a) to set a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in council tax;
- (b) to fund agreed priorities, ensuring that service and financial planning is fully aligned with the Council Plan;
- (c) to deliver a programme of planned service reviews designed to keep reductions to front line service to a minimum;
- (d) 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;
- (e) to ensure the Council can continue to demonstrate value for money in the delivery of its priorities.

Local Government Finance Settlement

20 The provisional Local Government Provisional Finance Settlement was published on 15 December 2016 and includes RSG and forecast Top Up grant allocations for the period 2017/18 to 2019/20. The Final Local Government Finance Settlement is forecast to be published on 22 February 2017.

- 21 The Council Tax Referendum Limit remains at 2%. The Government has also confirmed the option to increase council tax by an additional 6% for an adult social care precept over the next three years. The Council has the option to accelerate these increases and increase Council Tax by up to 3% in both 2017/18 and 2018/19. The maximum increase that can be applied in 2019/20 remains at 2% and the adult social care precept can increase by no more than 6% over the 2017/18 to 2019/20 period.
- 22 The provisional settlement includes details of core grants including RSG and Business Rates 'Top Up' Grant. The table below highlights the 2017/18 reduction in the Settlement Funding Assessment (SFA). It is important to note that the Business Rates figure below is a 'notional' figure published by the Government.

Table 1 – 2017/18 Settlement Funding Assessment

Funding Stream	2016/17	2017/18	Variance	
	£m	£m	£m	%
Revenue Support Grant	77.140	56.000	(21.140)	-27.4%
Business Rates	55.500	51.250	(4.250)	-7.7%
Top Up Grant	61.000	67.630	6.630	10.9%
SFA	193.640	174.880	(18.760)	(9.7%)

- 23 The table above highlights that the SFA has reduced by 9.7% in 2017/18 although of more importance is the reduction in RSG where there has been a further reduction of £21.14million (27.4%).
- 24 The variations above in the assumed Business Rates and Top Up grant sums are, in the main, as a result of the 2017 revaluation of Business Rates. The impact for the revaluation for the County is a net reduction in business rates payable. Generally this is good news for businesses operating within the County, although business rates will increase for businesses.
- 25 The impact of the reduction in business rates should be cost neutral with an increase in Top Up grant payable to offset the loss of business rates. The impact for the Council has not been cost neutral however, due to the number of changes to business rate reliefs and the impact of the revaluation on University related premises. Overall in 2017/18 the Council will be £0.863million worse off as a result of the revaluation of business rates although this is offset by a forecast benefit of £0.478million in 2018/19 i.e. a net overall £0.385million deterioration when compared to 2016/17.
- 26 In addition to the above 'core' grants, the Council continues to face reductions in Specific Grants. The government previously advised that the Education Services grant would be reduced in 2017/18 and 2018/19 mainly as a result of the removal of statutory responsibilities for Education from local authorities. Although the government has subsequently confirmed that there will be no reduction in statutory responsibilities, the reduction in the Education Services grant will go ahead. In 2017/18 the grant will reduce from £5.4million to £1.5million. This £3.9million reduction will be offset by additional income of

£1.4million from a new School Improvement grant of £0.4million and from new funding being made available from the Dedicated Schools Grant (DSG) of £1.0million. Overall however, this is still a net £2.5million reduction.

- 27 The Council still awaits confirmation of the 2017/18 allocations for a number of specific grants. The table overleaf provides details of the more significant allocations confirmed to date whilst Appendix 2 provides a comprehensive list of all specific grants the council expects to receive for 2017/18.

Table 2 – Reduction in 2017/18 Specific Grants

Specific Grant	2016/17	2017/18	Variance	
	£m	£m	£m	%
Education Services Grant	5.407	1.500	(3.907)	(72)
Public Health Grant	51.246	49.983	(1.263)	(2)
Housing Benefit/LCTR Admin	3.466	3.231	(0.235)	(7)

- 28 Although there has been an increase in the original Better Care Fund of £0.7million, this funding is expended in partnership with Health. Discussions will be required with Health partners to determine how this additional funding will be invested.

Analysis of Provisional Settlement

- 29 The 2017/18 Local Government Finance Settlement is the second year of a four year settlement. The 2017/18 reduction of £21.1million in RSG is in line with the forecast and the impact of the 2017 business rate revaluation upon the Council has been described earlier. The two major changes when compared with 2016/17 relate to the reduction in the New Homes Bonus (NHB) and the introduction of a one off Adult Social Care grant.
- 30 The government consultation to change the NHB ended in March 2016. The outcome of the consultation was published in December 2016 along with the provisional Local Government Finance Settlement. The main changes in NHB for the future will be as follows:
- (a) to reduce the number of years for which legacy payments are made from six years to five years in 2017/18 and then to four years from 2018/19;
 - (b) to introduce a baseline for housing growth. This will be set at an initial baseline of 0.4% of the 2017/18 council tax base rather than the 0.25% illustrated in the consultation. The government will retain the option of making adjustments to the baseline in future years in the event of significant housing growth;
 - (c) from 2018/19 government will consider withholding NHB payments from local authorities that are not planning effectively, by making positive decisions in planning applications and delivering housing growth as well as withholding payments for homes that are built following appeal.

- 31 The changes to NHB result in a reduction in the sums payable in the future with payments being over four years rather than six and no payments being made for the first 0.4% growth in tax base. A significant reduction in NHB had been forecast as the government had previously advised that this reduction in NHB would be utilised to finance the expansion in the Social Care element of the Better Care Fund. The introduction of a higher baseline at 0.4% for NHB however has created an additional saving to government. The government has utilised this opportunity to introduce a one off Adult Social Care grant in 2017/18. Nationally the sum available is £240million with this sum being distributed based upon the Adult Social Care Relative Needs Formula. The Council's allocation from the £240million is £2.83million. This sum is available in 2017/18 but is withdrawn in 2018/19.
- 32 The government has continued to allocate additional funding to mainly shire areas in 2017/18 from Transition Grant of £150million and Rural Services Delivery Grant of £65million. A range of council's benefit significantly from this additional £215million of funding as detailed in the table below:-

Table 3 – 2017/18 Transition / Rural Services Delivery Grant Allocations

County Council	Total Grant
	£m
Surrey	12.2
North Yorkshire	9.6
Hampshire	9.3
Devon	8.8
Cumbria	5.6

- 33 The Transition Grant is paid to those authorities who faced the largest percentage reduction in RSG in 2016/17 and is expected to be paid in 2018/19. This methodology is totally flawed, however, as the authorities who benefit in this regard naturally have low levels of RSG due to their high council tax base levels.
- 34 In terms of the Rural Services Delivery Grant the payments made are on top of the additional RSG payable to these authorities due to the 'sparsity' factors built into the Relative Needs Formulae. Authorities benefit if they are in the super sparsity upper quartile. The Council does not qualify for any funding on this basis sitting at the 33% point in terms of the super sparsity indicator.
- 35 In line with previous years, the government has published Core Spending Power (CSP) data. The key features of the CSP calculation are as follows:-

- (a) the calculation assumes that authorities, on average, will increase council tax by 1.75% every year;
- (b) in addition every upper tier authority will take advantage of the additional 2% Adult Social Care precept up to 2019/20;
- (c) an assumption is built in that each council tax base will continue to increase every year in line with past experience. For the council, an average increase in council tax base of 1.75% is assumed;
- (d) forecasts for reductions in NHB over the next three years are included. The forecast reduction over the 2018/19 to 2019/20 period for the Council is £2.7million whereas the Council's own prudent forecast over the same period is £4.1million;
- (e) the calculation does not include any reduction in Public Health Grant, Education Services Grant, Housing Benefit / Local Council Tax Reduction Administration Grant or any other specific grant.

36 The CSP figures published by government appear to be very optimistic, especially with reductions in Specific Grant being excluded. The table below details the published position for the Council in terms of CSP.

Table 4 – Core Spending Power Analysis

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Settlement Funding	193.6	174.9	164.6	154.7
Council Tax Requirement	182.2	188.6	195.2	202.0
2% Social Care Precept	3.6	7.5	11.7	16.3
Better Care Fund	0	2.4	13.4	23.1
New Homes Bonus	10.4	9.2	6.8	6.5
Adult Social Care Grant	0	2.8	0	0
TOTAL	389.8	385.3	391.7	402.6

37 The forecast increase in Core Spending Power over the next three years is £12.8million or 3.3%. This position is deemed to be optimistic but also excludes the following:

- (a) a forecast reduction of £8.6million in Specific Grants over the next three years;
- (b) forecast base budget pressures over the next three years of £51.6million, especially resulting from Social Care demographic pressures and from the impact of the increases in the National Living Wage.

38 In terms of 2017/18, the Council's CSP is forecast to reduce by 1.2% which is the same as the England average. This is the first time since Spending Power was introduced as a comparator that the council has not faced a CSP reduction more than the England average. The main reason for this is the impact of reducing the NHB which has a detrimental impact upon District Councils. The table below highlights however, that the Council along with the remainder of the North East, continues to face CSP reductions which are higher than for Upper Tier authorities in more affluent areas of the country.

Table 5 – Spending Power Reduction Comparison

Local Authority	2017/18 Reduction in Core Spending Power
	%
England Average	1.2
Durham	1.2
Sunderland	1.6
Newcastle	1.2
Wokingham	0.7
North Yorkshire County	0.5
Surrey County	0.1

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

- (a) in affluent areas, significant numbers of service users, especially in adult social care, can afford to contribute to the cost of their service provision. This is especially the case for residential care and home care services for the elderly. In these circumstances, the budget required to provide services in deprived areas is much higher than in affluent areas;
- (b) similarly, demand for services such as Children's Social Care, in deprived areas is significantly higher than more affluent areas resulting in deprived areas requiring higher budgets.

40 Regardless of this, the Spending Power per dwelling data highlights how significantly the funding of an area such as Durham has declined over recent years. The table overleaf highlights the 2017/18 Spending Power per dwelling for a range of local authorities. The England average excludes District Councils.

Table 6 – 2017/18 Core Spending Power per Dwelling

Area	Core Spending Power Per Dwelling
	£
England	1,805
Durham	1,598
Wokingham	1,723
Reading	1,735
Nottingham City	1,796
Surrey (including Districts)	1,931

- 41 Considering the levels of deprivation in County Durham, it is disappointing that the government's Spending Power per dwelling calculation for Durham is now significantly less than the England average. The impact of above average funding reductions for seven years has resulted in a relative position for Durham which is neither proportionate nor fair given the relative deprivation and needs that should to be adequately resourced. By way of a practical example; a relatively deprived area like Durham now has a lower Spending Power per dwelling than a more affluent area such as the county of Surrey - which will have a 20% higher spending power per dwelling than Durham in 2017/18.

Consultation

- 42 The 2017/18 budget public consultation ran from 6 September to 7 October 2016 and sought views on the Council's approach to budget reductions to date; whether the service priorities identified in 2013 continued to be relevant; our proposals for 2017/18 and what individuals, communities and other local organisations could do to help us meet this challenge.
- 43 A second stage of the consultation ran from 13 December 2016 -12 January 2017 to provide key partner agencies with a further opportunity to comment on our proposals in the light of the government's announcement of its Autumn Spending Review.
- 44 In the first phase of the consultation, as with previous years, the Council worked with existing networks and partnerships including the AAPs. In addition, to encourage wider participation; the council ran roadshows in key locations across the county including supermarkets, leisure centres, customer access points, markets and agricultural shows as well as attending a wide range of community meetings and events throughout the county.
- 45 This approach enabled the Council to engage with over 3,000 people, of which over 1,900 gave their views. The table below details participation figures.

Table 7 – Analysis of Consultation Participation

Meetings and Events	No of people in attendance or talked to	No of completed forms
Generic Questionnaire		
14 AAP Board meetings	544	299
74 meetings with communities including toddler groups, AAP task groups, parish councils, coffee mornings and luncheon groups	1,275	493
3 youth groups	73	39
15 roadshow events in key places across the county	1,022	297
Posted/misc.	-	66
Total paper surveys	-	1,194
Online responses	-	275
Total participating in events	2,914	1,469
Easy Read Questionnaire		
Five meetings with people with learning disabilities and physical disabilities	40	40
One event with school children	421	410
Overall Total	3,375	1,919

- 46 The table also includes additional targeted consultation with over 450 people to include the views of people which are unlikely to be captured by the generic questionnaire. This included people with disabilities, children and young people. In these circumstances, the questionnaire was adapted into easy read versions to meet needs and is therefore recorded and reported separately.
- 47 A questionnaire was used as a key method of gathering responses and was available at all events as well as online. In total, as indicated above the Council received 1,919 responses; 1,469 being from the generic questionnaire.
- 48 Discussions were also held with partner organisations and networks including County Durham Partnership, the Local Council's Working Group and the Voluntary and Community Sector Working Group, the Armed Forces Forum and the County Durham Faiths Network. Feedback from the discussions is captured in this report and participants were encouraged to complete the questionnaire.

- 49 The consultation was promoted via the County Durham News, social media and partner networks.
- 50 The outcomes from across the consultation have been recorded and analysed and key messages are identified below.

Key Messages

- 51 Almost two-thirds of respondents (63%) stated our approach to making future savings is a reasonable way to go forward in 2017/18.
- 52 The majority of respondents were aware of the size of savings the council has made recently; however, results from wider engagement activities indicate awareness amongst the general public may be lower compared to those engaged in partnership meetings and online responses.
- 53 Around half of respondents have not noticed changes to council services. Where changes have been noticed respondents were more likely to identify service deterioration, most commonly among highly visible environmental type services.
- 54 Overall, respondents scored the Councils approach to making savings at 6 based on a scale of 1 to 10, where 1 = poor and 10 = excellent.
- 55 There was a high level of agreement for continuing to prioritise certain services for smaller or larger savings with between 68% - 85% of respondents agreeing with existing priorities as identified in the 2013 consultation. The exception to this was subsidised bus travel where less than half of all participants (48%) said it should continue to be prioritised for larger savings. However, although some suggestions were received, there were no clear themes emerging for additional services that should have smaller or larger reductions.
- 56 Analysis of results by protected characteristics yielded just a few key findings specifically from people with a disability and with younger respondents. Proportionately more disabled people (70%) said they were aware that over the last five years the council have made savings of more than £180million compared with people without a disability (55%). The under 25s were least aware (22%) of the amount of savings made compared with the 25 - 64 (59%) and 65+ (60%) age groups.
- 57 Partner organisations expressed concern about the impact of leaving the EU on funding, the disproportionate impact of government policies on Durham and the need to continue to provide preventative services as they prove cost effective and help to avoid shunting of costs.
- 58 The targeted work with people with learning and physical disabilities told us that 94% felt our approach to making future savings is a reasonable way to go forward in 2017/18. Their views about services in the past five years mirrored that of the generic questionnaire with 57% stating that services had either

stayed the same or improved. Similarly, this group fully agreed that subsidised bus travel should not continue to make a higher saving.

- 59 The targeted work with children mirrored the responses from the generic questionnaire. The exceptions being; a higher proportion of respondents felt we should not make larger savings from the range of back office functions (between 53% and 61%) and 55% stated we should continue to make larger savings from subsidised bus travel.
- 60 A more detailed explanation of the consultation results is provided in the following sections and full response tables are provided in Appendix 3.

Detailed Consultation Outcomes

- 61 Just over half (56%) of all 1,469 respondents indicated they were aware that we have made savings of more than £180million.
- 62 Half of respondents (50%) said that over a five-year period council services have stayed the same. Although (43%) of respondents felt council services had got worse.

Table 8 – Consultation Outcome

Outcome	Count	%
Improved	95	6.8
Unchanged	696	49.7
Got worse	608	43.5
TOTAL	1,399	100

- 63 Around 39% of respondents indicated how services had changed. Most commonly included were reduced service levels or poorer response times. (this comment was made from around 9% of all respondents).
- 64 Respondents also identified changes to a range of highly-visible environmental services such as:
- (a) changes to waste and recycling services (including moves to fortnightly collections, charging for garden waste collection, reduced hours at household waste recycling centres and increased fly-tipping (7% of all respondents);
 - (b) poorer street cleanliness generally (6% of all respondents);
 - (c) less grounds maintenance, reduced grass-cutting, verges not maintained (5% of all respondents);
 - (d) poor highway and footpath maintenance, more potholes, low quality road repairs (5% of all respondents);

(e) new street lighting poorer quality (4% of all respondents).

65 The above comments relate to universal services and comprise of around 40% of all comments received. Other comments related to a range of user specific services and provision and include:

(a) less provision for older people such as care homes or day centres (4% of all respondents);

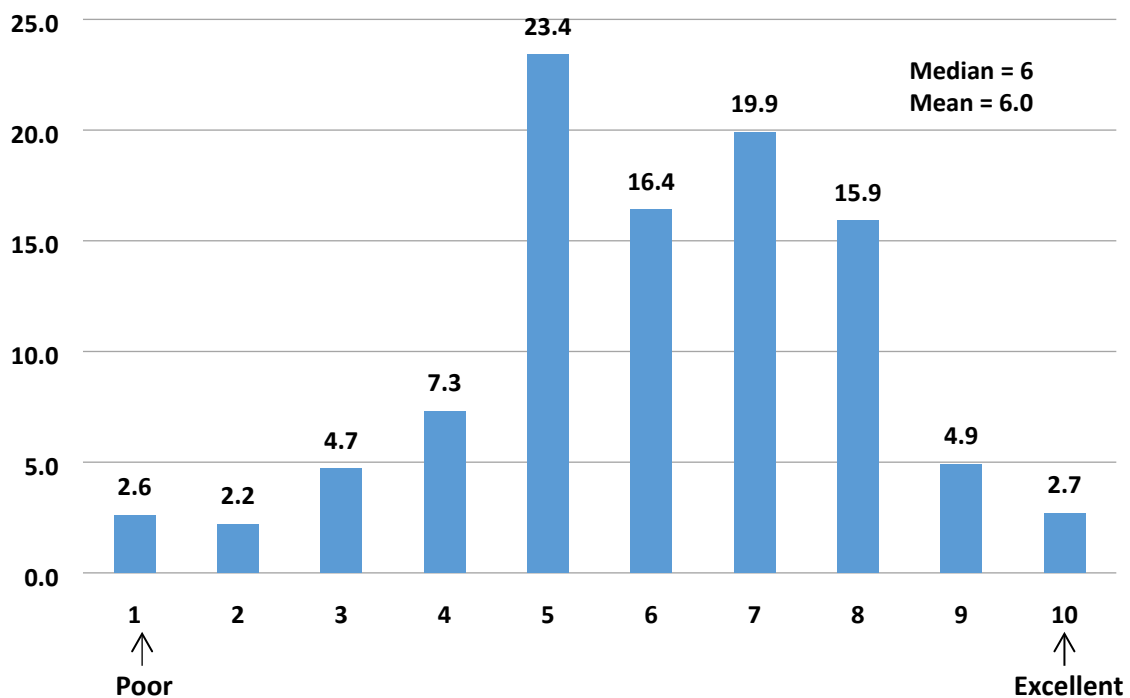
(b) reduced investment in communities, facilities and services (3% of all respondents);

(c) fewer children's centres and activities for children and families (3% of all respondents);

(d) reduction in library opening hours, less library service investment/books (2% of all respondents).

66 Participants were also asked to rate (on a scale of 1 to 10) the council's approach to making savings. Overall over 80% of respondents scored the council's approach at a score of five or higher.

Chart 1 Rating of the council's approach to making future savings



67 There was a high level of agreement for continuing to prioritise certain services for smaller or larger savings with between 68% - 85% of respondents agreeing with existing priorities. The exception to this was subsidised bus travel where less than half of all participants (48%) said it should continue to be prioritised for larger savings.

Chart 2 Do you think we should continue to prioritise smaller savings for the areas below?

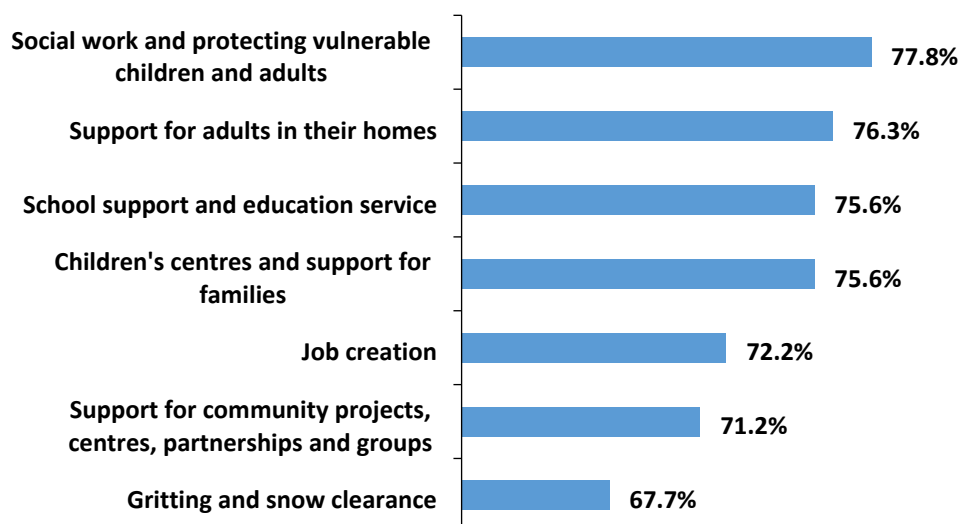
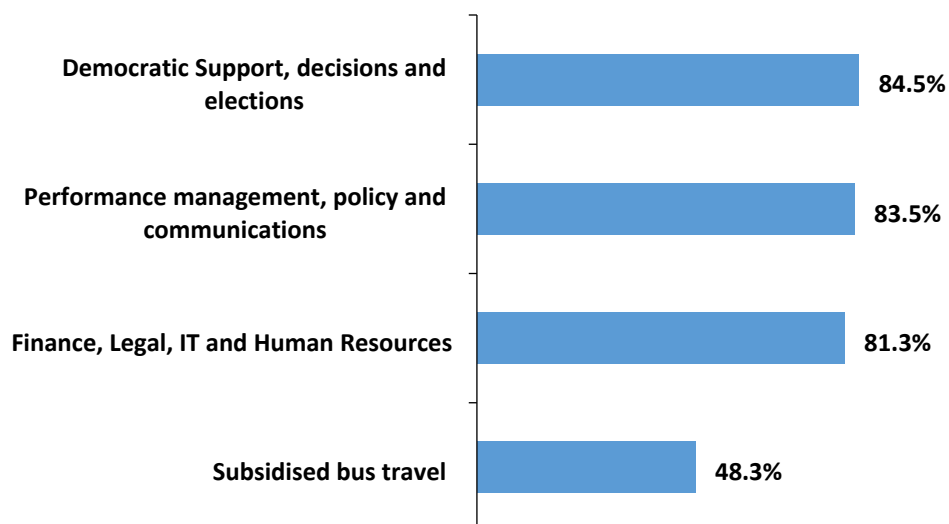


Chart 3 Do you think we should continue to target larger savings for the areas below?



68 More than one in ten respondents suggested other council services that could be considered for a smaller or larger reduction to their budget. However, these suggestions cover a wide variety of services and no clear insights emerge. For example, 20 comments were received about applying larger reductions to grounds maintenance budgets (including grass cutting, trees and flower beds) which was the most commonly coded emerging theme. However, these 20 comments were from less than 2% of all respondents and conversely 21 comments were received indicating that these same budgets should receive smaller reductions.

69 Overall, almost two-thirds of respondents (63%) stated our approach to making future savings is a reasonable way to go forward in 2017/18.

- 70 Around one in 10 people (10%) provided some reasoning as to why they did not agree that our approach is a reasonable way forward. Again, a wide variety of responses were received, most commonly comments included, suggestions to cut management (2%), too difficult to determine a view (2%), improving efficiency, (1%), focus on increasing income (1%) and consider the long term impacts of savings such as cost shunting and the need to support more preventative services (1%).
- 71 We also provided a specific list of activities which participants could indicate their support. More than two in three respondents (68%) overall said they were prepared to 'Bin it right' whereas four in ten said they would be prepared to work with local groups to take over the running of a local facility or service.

Chart 4 Looking at the suggestions in the leaflet that would help meet the savings, which would you be willing to support?



- 72 The final question provided an opportunity for respondents to contribute their ideas for how residents, communities or other local organisations could help us meet future savings. Around one in six respondents (16%) took this opportunity and again a wide variety of comments were received. In many cases, respondents used this as an opportunity to comment on ways in which the council could continue to make further savings. The most common response proposed was cutting wages and expenses of councillors (5% of total participants).

Variations Resulting from the Different Engagement Methods

- 73 The wider approach adopted this year achieved a relatively good response in terms of numbers and range of participants. There were some differences in answers depending on the method of engagement used. This was particularly noticeable when comparing online responses to those received from the wider engagement.
- 74 Generic questionnaire responses, where possible, were categorised into three response types. These were:
- (a) stakeholder meetings;
 - (b) wider engagement meetings and events;
 - (c) online questionnaires.
- 75 It is worth noting there are 375 responses ('Other' in the below table) which were not able to be allocated to a category. The table below has a full breakdown of questionnaire responses across all response types.

Table 9 – Questionnaire Analysis

Response Type	Questionnaires Received	%
Stakeholder event	259	18
Wider engagement event	560	38
Online	275	19
Other	375	25
TOTAL	1,469	100

- 76 Generally, participants in the wider engagement activities have a lower level of general awareness about the Council's approach and budget reductions to date. Just 41% of respondents from the wider engagement type activities were aware of the level of savings that the council has made over the last five years. This is likely to be indicative of these respondents being less involved with the council generally. Anecdotally, staff delivering the wider engagement activities said that many respondents at these events would not have otherwise taken part in this consultation.
- 77 Other differences were noticeable in certain questions with respect to online respondents. This group tended to be less positive about both the council's previous approach to making savings (online respondents rated the council's approach at an average of five out of ten compared to six out of ten for all respondents) as well as the approach for 2017/18 where around two in five respondents said they agreed with our stated approach.

Analysis of Results by Equality Groups

- 78 Questionnaires were received from all of the protected groups and were broadly representative of the county's population. Overall slightly more women (57%) participated than men and this is a reflection of the disproportionately higher proportion of female participants who took part in the stakeholder and wider engagement events, on-line, the results were more evenly split with 51% male and 49% female.
- 79 Engagement with disabled people was encouraging with an overall rate of 14% which is broadly comparable to 2011 Census data which states 18% of the county's population are limited in carrying out day-to-day activities. When adding the targeted consultation participation figure of 40, this further increases the representativeness of disabled people. A range of age groups took part on the consultation with the largest group of participants (67%) from the working age population (18 - 64 years) which is comparable to census data on age.
- 80 However, 29% of respondents were from the 65+ age group which is disproportionately higher than the 20% county-wide population. Around 1% of participants were Black, Asian and Minority Ethnic. Respondents from the remaining protected groups were representative of the population with 4% from the lesbian, gay and bisexual population, 28% having no religion or belief, 69% were Christian and the remaining 3.1% had other religions or beliefs.

Engagement with Partnerships and other Stakeholders

- 81 Discussions were held with a range of organisations through existing partnerships and network meetings. These included; the County Durham Partnership, the Local Council's Working Group, the Voluntary and Community Sector Working Group, and the Armed Forces Forum. Local Councils were also invited to participate through the questionnaire and some hosted discussions through the wider engagement meetings and events.
- 82 Feedback included:
- (a) it is important to continue with the approach of providing preventative services as it is more cost effective than the costs of addressing issues further down the line;
 - (b) continuing changes to government policy is not always favourable to County Durham in terms of impact on finance and service delivery;
 - (c) the VCS organisations are likely to be impacted by the proposed reduction in Members' Neighbourhood Budgets by £2,600. Therefore it was important that to mitigate this, the AAPs will make every effort to maximize external match funding;

- (d) concern about the impact of leaving the EU on funding expected such as the European Social Investment Funding (ESIF), in particular the allocation for the North East Local Enterprise Partnership which contained a sum of £130million ring-fenced for County Durham as a Transition Area.

Engagement with People from Protected Characteristic Groups

- 83 Additional targeted consultation was held with both people with physical and learning disabilities and children and young people. In both cases, the format of the questionnaire was altered to suit the needs of the audience. Due to the different format and for ease of analysis, these responses are detailed in the following two sections.
- 84 **People with physical and learning disabilities:** Consultation was held with 40 people who have moderate to severe learning disabilities by the People's Parliament staff team. The team considered the questionnaire and developed an easy read version for this group. The consultation was delivered in group sessions with five sample groups from different parts of the county and through different service providers. A summary of their responses is provided below.
- (a) 53% of respondents said they did not know that the council had had to make savings of over £180million over the past five years. When asked if during that time council services have either; improved, stayed the same or got worse; 57% said that they had either stayed the same or improved. The changes they noted included that individual care has improved for some people but for some it has been less positive;
 - (b) participants were also asked to rate (on a scale of 1 to 10) the council's approach to making savings. Overall, the median rating for all respondents was 9, considerably higher than for those completing the questionnaire;
 - (c) there was a high degree of agreement for continuing to prioritise certain services for both smaller and larger savings. The exception to this was subsidised bus travel where all participants 100% said it should not continue to be targeted for larger savings;
 - (d) the majority of respondents (94%) stated our approach to making future savings is a reasonable way to go forward.
- 85 **Children and young people:** East Durham Rural Corridor AAP in conjunction with Investors in Children set up a consultation session in Sedgfield School to capture the views of children. Due to the time constraints and their experience of working with children, an easy read, graphical version was developed for this target group. 421 children took part and completed responses which are summarised below:

- (a) 69% of respondents said they did not know that the council had had to make savings of over £180million over the past five years. They were asked if they had noticed any changes and 60% said they had not. Of those who had, only 28 went on to give further details. Given the low numbers who responded to this question, no real analysis could be made;
- (b) again with this group there was a high degree of agreement for continuing to prioritise certain services for a smaller savings. However, only 39% felt we should continue to make smaller savings from Support for Community Projects, Centres and Partnerships. When asked if we should continue to make larger savings from some services; 55% felt we should continue to make larger savings from subsidised bus travel. A higher proportion of respondents felt we should not continue to make larger savings from; Performance Management Policy and Communications (61%), Democratic Support, Decisions and Elections (53%), and Finance, legal, IT and Resources (60%).

Second Stage Consultation

- 86 In addition to having the opportunity to take part in the survey, key partners were provided a further opportunity to submit comments on the Council's budget proposals in the light of the government's announcement of its Autumn Spending Review and the earlier consultation results. They were asked to identify if any of the proposals would have a negative impact on their organisation's priorities, workload or any priority groups they work with.
- 87 Key partners including the Office of the Durham Police and Victims' Commissioner, the County Durham and Darlington Fire and Rescue Service, an Area Action Partnership and Durham Community Action provided written responses.
- 88 Their responses indicated a full appreciation of the position that the council is in and support for the approach to the reductions to date. The responses highlighted the importance of continued collaboration, partnership working and on-going dialogue in relation budget management in order to avoid duplication, minimise impact and maximise value for money. A number of key issues were raised including;
- (a) the continued need to invest in preventative services which reduce demand in the long term whilst also tackle current demand in the most efficient way;
 - (b) the continued need to expand collaborative working to reduce the impact of further budget reductions in the Adult and Health Service, particularly for vulnerable adults. The Fire Service highlighted evidence suggesting that whilst dwelling fires have reduced, the majority of fire fatalities have been amongst older people living alone and with poor mental health and/or dementia;

- (c) consideration being given to not using reserves to phase in the scale of future reductions on the basis that they would ultimately have to be found from the Council's budget;
- (d) as more details emerge around service and team reviews, the importance of the community having an opportunity to comment on potential impacts.

89 In addition to the cross cutting responses, a small number of specific comments were received and these have been passed onto the relevant services for consideration as part of specific consultation.

Scrutiny Committee Feedback

- 90 Scrutiny members have met three times so far to consider ongoing work to prepare MTFP(7). A joint special meeting of Corporate Issues Scrutiny Committee and Overview and Scrutiny Management Board was held on 27 September 2016 to consider the July Cabinet report on MTFP(7). At this meeting members commented that it was a long gap to the next planned scrutiny session in late January. Members requested that an additional meeting be held to consider the updates to the MTFP position in relation to recent Cabinet decisions, to receive headline information on the Chancellor's Autumn statement, and to provide comments to feed into the December Cabinet's consideration of MTFP(7) savings.
- 91 This second scrutiny meeting was held on 25 November 2016, and members considered the updated MTFP(7) model, the associated consultation process, the Council's reserves position and a verbal update on the Autumn statement.
- 92 Overall, members of the committee agreed that they wished to give credit to staff on the way the report was presented and the ongoing work in developing the MTFP. The committee agreed that the Council deserves credit on the handling of austerity measures, including with regard to reserves.
- 93 Members also agreed that there had been a good and robust MTFP consultation process, but made suggestions in two key areas:
- (a) Firstly members agreed that there is a need to take care in future years' consultations that the framing of questions regarding larger or smaller savings was fully contextualised by including information on the savings which have already been taken in each area. The concern here was whether further savings falling in the areas where larger savings have already been made were achievable. The need to rely on the good judgement of Cabinet in considering the consultation results in such areas was also highlighted;
 - (b) Secondly in analysing this year's results, that care is taken in the methodology to ensure it is robust and to set out any limitations as part of the analysis, in particular when bringing together the responses from the full survey with those from the easy read versions designed for specific groups.

- 94 Turning to the MTFP model, members made comments in a number of areas. With regard to the additional pressures facing Children's services, members considered that the effects of austerity on children and families is a key factor which drives increased referrals. Members stressed the importance of making sure that we are looking after children.
- 95 In considering the detail of the MTFP model, members also commented on the Better Care Fund, and the importance of keeping a close eye on the Government commitment to the stated level of funding.
- 96 Finally members commented on the really good assessment of the position that had been provided, and again thanked officers for their work.
- 97 The third scrutiny meeting was held on the 26 January 2017 to consider the December Cabinet report on MTFP(7) which provided a further update on the Autumn Statement, the full budget consultation results and the latest MTFP model. In addition to their previous comments, members wished at this stage to ask Cabinet whether they have any plans to utilise the additional 2017/18 flexibility in relation to the adult social care precept and if so what services the additional funding would be invested in. They also expressed concerns about cost shunting to social care. In relation to transfer of clients from NHS to community placements members were keen that the Council continues to seek to ensure continuity of dowry funding.
- 98 In considering the outcomes of the budget consultation, members were keen to engage a wide range of people and were reassured on the broadening of the consultation base and range of events held. A suggestion was made to consider an additional question on previous participation in budget consultations.
- 99 The final stage of the scrutiny process will be consideration of this February Cabinet report at the Overview and Scrutiny Management Board meeting on 13 February 2017. Members of Corporate Issues Overview and Scrutiny Committee and leaders of all political groups will also be invited to attend.

Medium Term Financial Plan Strategy

- 100 The strategy the Council has deployed to date has been to prioritise savings from management, support services, efficiencies and, where possible, increased income from fees and charges to minimise the impact of reductions on frontline services as far as possible.
- 101 Throughout the period covered by the MTFP(1) 2011/12 through to MTFP(7) 2019/20, the cumulative savings required has risen from an originally forecast £123million to a revised and updated forecast £245.3million. It is therefore clear that it will become increasingly difficult to protect frontline services going forward.
- 102 To date the Council has implemented the agreed strategy very effectively:-

- (a) £185.7million of savings will have been delivered by 31 March 2017;
- (b) in the vast majority of cases, savings have been delivered on time and in some areas ahead of time. This is critically important, as non-delivery would place additional pressure upon the revenue budget;
- (c) whilst income from fees and charges has been increased, this has not resulted in the Council having the highest levels of fees and charges in the region, which is important given the socio-economic make-up of the county;
- (d) it was originally forecast that there would be a reduction in posts of 1,950 by the end of 2014/15 with the actual figure being broadly in line with this forecast. Looking ahead with the significant savings requirements over the next two years, the Council is expecting to see further reductions in the workforce. For 2017/18 the forecast is for a further reduction of 302 posts including the deletion of 65 vacant posts. It is currently forecast that by the end of 2017/18 the reduction in post numbers will be 2,674, of which 663 will have been via the deletion of vacant posts;
- (e) following the abolition of the national Council Tax Benefit system in 2013, and despite government funding reductions for the Local Council Tax Reduction Scheme, the Council has been able to maintain a scheme that protects all working age households in line with the support they would have previously received under the Council Tax Benefit system. This is a significant achievement and the Council is one of small number of Councils that have been able to maintain this support at a time when working age households are suffering from continued impacts of the government's welfare reforms. This has only been possible through prudent financial planning;
- (f) the Council has also been able to protect those services prioritised by the public such as winter maintenance whilst also continuing to support a fully funded capital programme.

103 The benefits of delivering savings early if practical to do so, cannot be over emphasised. The utilisation of reserves has been essential in ensuring the smooth delivery of the savings targets and enabled a managed implementation of proposals across financial years.

104 In general, the Council has been quite accurate in forecasting the level of savings required, which has allowed the development of strong plans and has enabled the Council to robustly manage the implementation and delivery on time, including meeting extensive consultation and communication requirements. This has put the Council in as strong a position as possible to meet the ongoing financial challenges across this medium term financial plan and beyond, where savings proposals are becoming more complex and difficult to deliver and will inevitably require increased utilisation of reserves to offset any delays and 'smooth in' reductions across financial years.

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

- (a) **protecting basic needs and support service for vulnerable people:** Although the scale of Government spending reductions is such that all MTFPs including MTFP(7) have identified unavoidable impact on vulnerable people, the Council works hard with partners to minimise this impact as far as possible. In MTFP(7), support has been continued to protect working age people on low incomes through the continuation of the existing Council Tax Reduction Scheme. 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;
- (b) **avoid waste and increase efficiency:** The Council has a good track record of delivering cashable efficiency savings since local government reorganisation. This includes rationalisation of Council buildings and IT systems as well as implementing significant 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. The Council benchmarks itself against other organisations in order to demonstrate value for money;
- (c) **work with the community:** The Council is a forerunner in asset transfer, having successfully transferred a number of leisure centres, a golf course, community buildings and children's centres to date. The Council has recognised the need for investment in resources to work with the community to achieve successful outcomes in this area and shares the public's view that there is scope to continue this in the future. The "Durham Ask" initiative is expected to result in the transfer of more Council assets to community groups so long as there is a business case supporting the sustainability of the transfer;
- (d) **fees and charges:** The Council has addressed some of its financial challenges through increasing fees and charges. Such decisions are carefully considered and it is acknowledged that it is not appropriate to aim for the highest charges possible given the income levels of the majority of residents and service users in County Durham.

106 It is clear that austerity will continue over the three year period of MTFP(7) resulting in at least nine years of significant funding reductions and the need to identify significant annual savings to balance the budget. The fact that each year's reduction is on top of those of previous years leads to a forecasted, cumulative total of £245.3million of required savings across the period 2011/12 up to 2019/20. This means that the Council continues to face a very considerable financial challenge to balance budgets whilst providing a good level of service.

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

108 Increased risk is arising from several sources:-

- (a) under the Local Council Tax Reduction Scheme, previous national risk arising from any increased numbers of benefits claimants has been transferred to Local Authorities since 2013/14. The risk is greater for authorities like Durham that serve relatively more deprived areas and have relatively weaker economic performance than the national average;
- (b) Business Rates Retention was introduced in 2013/14 to incentivise local authorities to focus on economic regeneration by being able to retain 49% of business rates raised locally. Economic regeneration has always been the top priority for the Council. Unfortunately, the practical consequences of these changes shifts risks once managed nationally to local authorities should there be a downturn in the local economy and local business rate yield reduces. In addition, the Council also now carries a share in the risk arising from successful rating appeals against the rateable value assigned to a business by the Valuation Office, part of HM Revenues and Customs which can go back many years and pre-date the introduction of Business Rates Retention;
- (c) the Chancellor of the Exchequer's 2015 Autumn Statement confirmed the government's aspiration that local authorities will be able to retain 100% of business rates collected locally by the end of this parliament. The transfer of 100% of business rates will result in local government as a whole receiving more income than would be required. On this basis, the government has confirmed that additional service responsibilities will be transferred to local government. A detailed exercise is presently underway to determine how the move to 100% business rate retention will work with consultations expected over the coming twelve months. It is forecast that 100% business rate retention will be introduced in 2020/21;
- (d) the government's ongoing Welfare Reform changes carry increased financial risk to the Council in areas such as the Benefits Service, homelessness and housing. Similarly, Council Tax may become more difficult to collect, creating increased financial pressure;
- (e) normal risks such as future price and pay inflation beyond MTFP forecasts and demographic pressures will still apply and are not currently recognised in government funding allocations, increasing the real terms cuts required to set a balanced budget;
- (f) future settlements are dependent upon the national finances. Uncertainties in relation to Brexit could impact upon the national finances and as such impact upon future settlements for local government.

109 Since clarity has been received in relation to RSG settlements up to 2019/20, there can be some confidence in the savings targets over the next three years. On that basis, detailed savings plans have been developed for 2017/18 with work ongoing to develop savings plans for 2018/19 and 2019/20.

Revenue Budget for 2017/18

110 Regular updates on the development of the 2017/18 budget have been presented to Cabinet since July 2016. These updates have provided detail upon the forecast resources available, budget pressures and the savings required to balance the budget. This report provides details on the final position.

Base Budget Pressures in 2017/18

111 Base budget pressures have been reviewed over the last year. Table 10 below provides detail of the final position on the 2017/18 Base Budget pressures.

Table 10 – 2017/18 Base Budget Pressures

Pressure	Amount
	£m
Pay Inflation	2.050
Price Inflation	2.600
Corporate Risk Contingency Budget	(2.000)
Additional Employer Pension Contributions	4.600
Costs associated with the National Living Wage	3.500
Energy Price Increases	0.250
Apprentice Levy	1.100
Medical Examiner	0.050
Pension Fund Auto Enrolment	0.600
Adult Demographic Pressures	1.000
Adults - Winterbourne	1.760
Adults - Deprivation of Liberty	0.709
Children's - Home to School Transport	1.500
Children's Demographic Pressures	2.735
Children's Social Work Posts	1,384
Delay in Achieving Business Support Unitisation saving	1,050
TOTAL PRESSURE	22.888

Additional Investment

112 Additional budget provision is required for price inflation, the cost of the pay award and increased costs in relation to employer pension contributions which have resulted from the triennial review of the Durham County Pension Fund.

- 113 The increase of 30p per week in the national living wage from April 2017 has resulted in the Council facing a forecast £3.5million budget pressure in 2017/18 due to likely increases in contract prices including adult social care contractors where salaries paid by care providers are often at or near to the national minimum wage.
- 114 From 2017/18 the Council will be required to pay the Apprentice Levy. The levy is based upon 0.5% of the paybill of the Council and is forecast to cost the Council £1.1million. Employers are able to recover the cost of training apprentices through drawing down funding from government but not the cost of employing the apprentice. The Council presently recovers the majority of training costs and therefore the apprentice levy is largely an additional cost burden.
- 115 The Council faces significant budget pressures in both Adult and Childrens social care related in the main to additional demand for services. Additional costs are also faced relating to the transfer of learning disability clients from NHS institutional settings into the community and also from additional demand relating to Deprivation of Liberty cases.
- 116 The 2017/18 budget will allow the Council to continue to invest in infrastructure growth. Under normal circumstances an additional £2million of revenue would be provided in the budget to finance Prudential Borrowing to continue the support for new projects within the Capital Programme. High cash balances however have delayed the need for the Council to borrow to the levels forecast and Interest rates continue to be at historically low levels. On this basis, it is forecast that the current budget available for prudential borrowing will be able to absorb the costs associated with the capital bids detailed within this report without the need for additional revenue funding. A key priority of the Capital Programme continues to be regeneration and job creation within the local economy.

Savings Methodology

- 117 To date, the Council has delivered the vast majority of savings required on schedule, where across the period 2011/12 to 2016/17 savings targets have totalled £185.7million.
- 118 The savings requirements to balance the 2017/18 budget is £36.019million, as detailed in Table 11 overleaf:

Table 11 – 2017/18 Savings Requirement

	£million	£million
Savings Requirement		31.780
Add Use of One Off Funds 2016/17		
Budget Support Reserve	1.622	
Collection Fund Surplus	<u>2.617</u>	
		<u>4.239</u>
TOTAL SAVINGS REQUIREMENT		36.019
Financed as follows:		
Savings Proposals	(23.397)	
Use of Budget Support Reserve	<u>(12.622)</u>	
		(36.019)
SHORTFALL		0

- 119 To reduce the impact upon front line services the Council will utilise £12.622million of the Budget Support Reserve. The utilisation of £12.622million of the Budget Support Reserve is in addition to the £1.622million utilised in 2016/17 and will leave a residual balance in the Budget Support Reserve of £15.756million to support the MTFP in future years.
- 120 The detailed savings plans totalling £23.397million required to balance the budget next year are detailed in Appendix 4. The main change in the savings plans since the report to 14 December 2016 Cabinet relates to a review of the council's methodology for calculating the Minimum Revenue Provision (MRP). The MRP is an annual cost the council is regulated to charge based upon capital investment funded from borrowing. With agreement from the External Auditor it has been agreed that the MRP can be based upon a 40 year asset life rather than the 25 years an element of the MRP is charged over at the moment. This change reduces the annual MRP charge by £3million.
- 121 Over the coming months the Council will develop savings plans for 2018/19 and 2019/20 and these will be reported to Cabinet during the development of MTFP(8).
- 122 The revised forecast of savings up to 2019/20 is detailed in Table 12.

Table 12 – Total Savings 2011/12 to 2019/20

Period	Savings
	£m
2011/12 to 2016/17	185.7
2017/18 to 2019/20	59.6
TOTAL	245.3

2017/18 Net Budget Requirement and Council Tax

- 123 After taking into account base budget pressures and additional investment, the Council's recommended Net Budget Requirement for 2017/18 is £387.594million. The financing of the Net Budget Requirement is detailed in Table 13:

Table 13 – Financing of the 2017/18 Budget

Funding Stream	Amount
	£m
Revenue Support Grant	56.000
Business Rates	48.739
Business Rates – Top Up Grant	67.625
Collection Fund Surplus	3.000
Council Tax	195.706
New Homes Bonus	8.882
New Homes Bonus Reimbursement	0.267
Education Services Grant	1.500
Section 31 Grant	5.875
NET BUDGET REQUIREMENT	387.594

- 124 The Gross and Net Expenditure Budgets for 2017/18 for each Service Grouping are detailed in Appendix 5. A summary of the 2017/18 budget by service expenditure type, based upon the CIPFA classification of costs is detailed in Appendix 6.
- 125 The Government has confirmed that the maximum the Council can increase council tax by is 1.99% without approval from a majority of council tax payers to increase it higher after a public referendum. The Government has also confirmed the option to increase council tax by an additional 6% for an adult social care precept over the next three years. The Council has the option to accelerate these increases and increase Council tax by up to 3% in both 2017/18 and 2018/19. The maximum increase that can be applied in 2019/20 is 2% and the adult social care precept can increase by no more than 6% over the 2017/18 to 2019/20 period. Although an increase of 3% in both 2017/18 and 2018/19 would generate additional council tax in each year, an increase of 2% in each of the three years would result in the council receiving a forecast £0.1million more council tax by 2019/20. On that basis a policy of 2% annual increases each would result in an overall lower savings target across MTFP(7) of £0.1million.
- 126 After considering the impact upon the Council's budget and, importantly upon council tax payers, this report recommends a 1.99% Council Tax increase in the Council's Band D Council Tax in 2017/18 which is below the 2% Referendum Limit. In addition the report recommends a 2% increase to the Adult Social Care precept. The total increase will generate additional income of £7.5million. The additional income will enable the Council to protect front line services whilst also covering significant base budget pressures such as

the additional costs associated with the introduction of the national living wage.

- 127 The 2017/18 council tax base which is the figure utilised to calculate council tax income forecasts, was approved by Cabinet on 16 November 2016 as 135,620.9 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.
- 128 Depending on the content of the final settlement, there may be a need to adjust the final budget although this will not affect the setting of 2017/18 council tax levels. If the final settlement differs from the provisional settlement, the Corporate Director Resources in consultation with the Cabinet Portfolio Holder for Finance will utilise delegated powers to adjust the budget as required.

Recommendations

129 **It is recommended that Members:**

- (a) approve the identified base budget pressures included in paragraph 111;**
- (b) approve the investments detailed in the report;**
- (c) approve the 2017/18 savings plans detailed in Appendix 4;**
- (d) approve a 1.99% 2017/18 Council Tax increase and an additional 2% increase which relates to the Adult Social Care precept, totalling 3.99%;**
- (e) approve the 2016/17 Net Budget Requirement of £387.594million.**
- (f) delegate to the Corporate Director Resources in consultation with the Cabinet Portfolio Holder for Finance any adjustments, if required, to balance the budget after the receipt of the final Local Government Finance settlement.**

How the Medium Term Financial Plan (MTFP (7)) 2017/18 to 2019/20 has been developed

- 130 The following assumptions have been utilised in developing the MTFP(7) budget model which is set out in Appendix 7.
- (a) government grant reductions for the MTFP(7) period have been developed utilising information from the provisional Local Government Finance Settlement. The published RSG reductions for the period 2017/18 to 2019/20 are detailed below. By 2019/20 the RSG received by the Council will have reduced to an estimated £27.6million;**

Table 14 – MTFP(7) RSG Reductions

Year	Funding Reduction
	£m
2017/18	(21.140)
2018/19	(14.140)
2019/20	(14.240)

- (b) the government previously announced significant reductions of circa 15% in Public Health grant over the four year period 2016/17 to 2019/20. The government has confirmed that the reduction in the Public Health grant will be £1.3million in 2017/18 with additional reductions of £1.4million in both 2018/19 and 2019/20. This reduction in Public Health grant increases the savings requirement for the Council in each of these years;
- (c) in terms of NHB the Government has confirmed a reduction in the number of years for which legacy payments will be made from six years to five years in 2017/18 and then four years from 2018/19. The government will also introduce a baseline for housing growth. However this will be set at an initial baseline of 0.4% of the 2017/18 council tax base rather than the 0.25% illustrated in the original baseline. The government will retain the option of making adjustments to the baseline in future years in the event of significant housing growth. In terms of MTFP(7) planning it is assumed that the NHB will continue to reduce in future years as the reduction to four years and the impact of the 0.4% baseline take effect. It is forecast at this stage that NHB will reduce by a further £3.3million in 2018/19 and by £0.8million in 2019/20;
- (d) the Council is also forecasting that there will be continued reductions in both the Education Services Grant (ESG) and the Benefit Administration grants. To be prudent at this stage it is forecast that ESG will reduce by a further £1.5million in 2018/19 resulting in no ESG being receivable and that the Benefit Administration grants will continue to reduce by £0.3million per annum;
- (e) the additional BCF allocations relating to Adult Social Care and Health pressures have also been built into the MTFP. The additional allocation begins with a £2.4million in 2017/18 increasing to a forecast £13.4million in 2018/19 and £23.1million in 2019/20. It is not clear at this stage if there are any specific grant conditions in relation to this funding stream or whether there may be specific expenditure commitments. It is felt prudent however to include these sums in our financial planning at this stage;
- (f) forecast pay and price inflation levels have taken into account the likely restraint on public sector pay and the current and forecast levels of price inflation. Although it is forecast that price inflation may exceed 1.5% over the next couple of years, service groupings will be expected

to manage budgets within set cash limits. The assumptions built into MTFP(7) are detailed in the table below:

Table 15 – Pay and Price Inflation Assumptions

Year	Pay Inflation	Price Inflation
	%	%
2018/19	1.5	1.5
2019/20	1.5	1.5

- (g) forecasts have also been included in relation to the impact of the National Living Wage over and above the 1.5% inflation allowance. Over the period 2018/19 to 2019/20 the Council expects to receive requests from a broader range of contractors requesting price increases due to the impact of the National Living Wage. Over this period there will also be an increasing pressure on the Council's salary budget. The annual budget pressure is forecast to be between £5million in 2018/19 and £5.5million for 2019/20;
- (h) continuing forecast budget pressures in relation to Concessionary Fares, Energy Prices and Children and Adults Demographics;
- (i) continuing the need to support the capital programme;
- (j) it is assumed that the Council will continue to utilise the flexibility to increase Council tax by the additional 2% adult social care precept.
- 131 Based upon the assumptions built into MTFP(7) the following savings are required to balance the budget in 2018/19 and 2019/20.

Table 16 – Savings to be Identified

Year	Savings Target
	£m
2018/19	26.838
2019/20	9.359

- 132 In total savings of £36.197million are required to balance the budget over the 2018/19 to 2019/20 period. To support the MTFP over this period there will be a residual balance in the Budget Support Reserve of £15.756million.
- 133 The MTFP(7) forecasted budget model is attached at Appendix 7.

Financial Reserves

- 134 Reserves are held:
- (a) as a working balance to help cushion the impact of any uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the General Reserves;

- (b) 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;
 - (c) as a means of building up funds, 'earmarked' reserves to meet known or predicted future liabilities.
- 135 The Council's current reserves policy is to:
- (a) set aside sufficient sums in Earmarked Reserves as is considered prudent. The Corporate Director Resources should continue to be authorised to establish such reserves as required, to review them for both adequacy and purpose on a regular basis and then reporting to the Cabinet Portfolio Holder for Finance and to Cabinet;
 - (b) 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 £31million.
- 136 Each earmarked reserve, with the exception of the Schools' reserve, is kept under review and formally 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.
- 137 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".
- 138 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.
- 139 The forecast balance on all reserves is reported to Cabinet every quarter as part of the Forecast of Outturn reports and Cabinet received the latest report on 16 November 2016. A range of reserves are being utilised to support MTFP(7). Details are as follows:
- (a) **MTFP Redundancy and ER/VR Reserve** – this reserve was originally created in 2010 with a balance of £26.9million. The reserve was replenished during 2013/14 when a further £15million was contributed to the reserve and was replenished again in 2015/16 when a further £10million was contributed. At

the end of 2016/17, it is forecast that the balance on the reserve will be £11.9million i.e. a sum of £40million will have been expended over the 2011/12 to 2016/17 period in support of the MTFP. Having this reserve in place will be a major factor in managing the savings realisation process effectively across the MTFP(7) period. This reserve will continue to be closely monitored;

- (b) **Budget Support Reserve** - It is forecast that an additional £12.622million of the Budget Support Reserve will be utilised to support the MTFP in 2017/18. The residual balance of £15.756million will be available to support the budget in later years and the level of this reserve will be reviewed as part of the final accounts closedown and through the development of MTFP(8);
- (c) **Cash Limit Reserves** – Service Groupings continue to utilise Cash Limit Reserves to enable re-profiling of when MTFP savings are realised. A sum of £0.8million is to be utilised in 2017/18. These reserves will continue to be carefully monitored.

- 140 Between the period 2011/12 to 2017/18 it is forecast that over £70million of reserves, including the BSR, will have been utilised to support the MTFP. It is recommended at this stage that the current Reserve Policy of maintaining the General Reserve of between 5% and 7.5% of the Net Budget Requirement is retained. This will result in a General Reserve range of up to £29million.
- 141 A balanced MTFP model has been developed after taking into account the assumptions detailed in this report. The MTFP model is summarised below.

Table 17 – MTFP(7) Model Summary

	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m
Variance in Resource Base	8.892	(0.084)	(5.076)	3.732
Budget Pressures	22.888	14.300	14.435	51.623
Previous use of one off funds	4.239	0	0	4.239
Use of Budget Support Reserve	(12.622)	12.622	0	0
Savings Required	23.397	26.838	9.359	59.594

Recommendations

- 142 **It is recommended that Members:**
- (a) **agree the forecast 2018/19 to 2019/20 MTFP(7) financial position;**

- (b) set aside sufficient sums in Earmarked Reserves as is considered to be 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 Holder for Finance and to Cabinet;
- (c) aim to maintain General Reserve in the medium term between 5% and 7.5% of the Net Budget requirement which in cash terms is up to £29million.

Capital Budget 2016/17 to 2018/19

143 The capital budget was last approved by Cabinet on 16 November 2016. Since that date capital budgets have continued to be challenged and reviewed and some additional resources have been received which have augmented the capital programme. After taking these adjustments into account Table 18 details the latest revised capital budget for the period 2016/17 to 2019/20 including the details of the financing of this capital expenditure. Further details of the current Capital Programme can be found at Appendix 8.

Table 18 – Current Capital Budget 2016/17 to 2019/20

Service Grouping	2016/17	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m	£m
Adults and Health	0.896	0.526	0	0	1.422
CYPS	24.901	10.257	0	0	35.158
REAL	78.811	80.874	27.143	10.832	197.660
Resources	4.179	10.435	0	0	14.614
Transformation & P.	4.042	3.167	0	0	7.209
TOTAL	112.829	105.259	27.143	10.832	256.063
Financed by					
Grants/Contributions	37.544	44.726	6.016	0.100	88.386
Revenue/Reserves	2.040	0.450	0	0	2.490
Capital Receipts	8.728	17.700	8.568	0	34.996
Borrowing	64.517	42.383	12.559	10.732	130.191
TOTAL	112.829	105.259	27.143	10.832	256.063

Capital Considerations in the MTFP(7) Process

144 Service Groupings developed capital bid submissions during the summer 2016 alongside the development of revenue MTFP(7) proposals. Bids were submitted in the main for 2018/19 to maintain the two year rolling programme approach to the capital budget. Bids were also submitted for 2017/18 which were deemed to be priority. The Capital Member Officer Working Group (MOWG) had considered the Capital bid submissions taking the following into account:

- (a) service Grouping assessment of priority;
- (b) affordability based upon the availability of capital financing. This process takes into account the impact of borrowing upon the revenue budget;
- (c) 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.

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

Available Capital Financing – Capital Grants

146 Capital Grants for 2017/18 are in line with the forecasts built into MTFP(6) although the allocation for Schools Capitalised Maintenance and Disabled Facilities Grant (DFG) are still to be confirmed.

147 The table below provides details of the indicative 2018/19 capital grant allocations included in plans. If the actual allocations for 2018/19 vary from the forecast then the capital budget may need to be adjusted accordingly.

Table 19 – Forecast Capital Grants Utilised in Support of the MTFP(7) Capital Programme

Capital Grant	2018/19
	£m
Disabled Facilities	4.891
LTP – Highways	10.230
LTP - Integrated Transport	2.689
School Maintenance	5.400
School Basic Need	4.984
School Devolved Capital	1.378
TOTAL	29.572

Capital Receipt Forecast

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

- 149 In a small number of circumstances, primarily in relation to former schools sites, capital receipts via land sales are ring fenced to particular schemes. In other cases estimated capital receipts have been offset by selective demolition of redundant buildings on sites declared surplus and being marketed for sale, in recent years this has been restricted to school sites.
- 150 In the 2015 Autumn Statement the Chancellor of the Exchequer announced that local authorities would be given flexibility under certain circumstances to utilise capital receipts to finance one off revenue costs associated with service transformation and reform. Additional details were included in the local government finance settlement in this regard.
- 151 The government has identified that revenue expenditure would qualify to be financed from capital receipts in the following circumstances:
- (a) qualifying expenditure is expenditure on any project designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years;
 - (b) the key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's, or several authorities', and/or to another public sector body's net current expenditure;
 - (c) within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility;
 - (d) the Secretary of State believes that individual local authorities or groups of authorities are best placed to decide which projects will be most effective for their areas;
 - (e) set up and implementation costs of any new processes or arrangements can be counted as qualifying expenditure. However, the ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.
- 152 The government believes that it is important that individual authorities demonstrate the highest standard of accountability and transparency. The draft guidance recommends that each authority should prepare a strategy that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full Council or the equivalent. This strategy can be included as part of the annual budget documentation and approved by full Council or the equivalent at the same time as the annual budget.
- 153 At this stage, it is not considered that there are a large range of opportunities for the Council to utilise this new flexibility. Careful consideration also needs to be given to the other options of funding such expenditure as identified above e.g. from contingencies or from reserves. Notwithstanding this it is recognised that it would not be unreasonable for the Council to consider

utilising this new flexibility to finance severance costs associated with the MTFP process.

- 154 On that basis to ensure that the Council has this option available it will be recommended that as part of the Council's overall approach to efficiency that it is noted at this stage that capital receipts could be utilised to finance severance costs.
- 155 If this option is adopted there will be a natural impact upon the financing of the capital programme. In former years the Council has set a target of £10million of capital receipts income to support the capital programme. A target of £10million is in place for 2017/18 which was included in MTFP(6). It is also recommended at this stage that a £10million sum is included in the 2018/19 capital financing budget. It is recognised however that it is becoming more difficult to achieve the £10million target as the availability of land for sale reduces. This position will be reviewed during development of MTFP(8).
- 156 If a decision is made and agreed by Cabinet in the future to utilise capital receipts to finance severance costs then the impact upon the capital financing budget will need to be considered.
- 157 During 2017/18 there may be other opportunities that manifest for the Council to utilise this new capital receipts flexibility to finance service transformation and reform one off costs. If there is a business case in this regard Cabinet approval will be sought and the case in question included in a formal Efficiency Strategy.

One Off Revenue Funding

- 158 The Council continues to recognise the importance of investing in capital infrastructure and the need to boost the local economy. With this in mind it is recommended that advantage is taken of the following one off revenue funding streams to support the capital programme:
- (a) **Collection Fund Surplus** – the Quarter 2 Forecast of Outturn report to Cabinet on 16 November 2016 detailed that it was forecast that there would be a £3million surplus on the Council Tax / Business Rates Collection Fund for 2016/17. This one off funding benefit is required to be utilised in setting the 2017/18 budget;
 - (b) **Newcastle Airport Dividend** – as part of the refinancing of the airport the Council has received a £2.64million dividend from the shareholding in the airport.

Prudential Borrowing

- 159 In previous years an additional £2million of revenue was provided in the budget to finance Prudential Borrowing to continue the support for new projects within the Capital Programme. High cash balances however have delayed the need for the Council to borrow to the levels and forecast and Interest rates continue to be at historically low levels. On that basis it is

forecast that the current budget available for prudential borrowing will be able to absorb the costs associated with the capital bids detailed within this report. A proportion of this budget is being utilised to support the leasing costs of replacement vehicles and plant.

Approval of Additional Capital Schemes

- 160 A comprehensive 2017/18 capital programme was approved as part of MTFP(6) in line with the Council policy of developing a two year rolling capital programme. The need to continue to invest in capital infrastructure is seen as an essential means of maintaining and regenerating the local economy whilst supporting job creation. Additional investment will maintain and improve infrastructure across the County, help retain existing jobs, create new jobs and ensure the performance of key Council services are maintained and improved.
- 161 After considering all factors, including the availability of capital finance, MOWG have recommended that the following additional value of schemes be approved for inclusion in the MTFP(7) capital programme. Full details of the additional schemes can be found in Appendix 9.

Table 20 – Additional Capital Schemes for 2017/18 and 2018/19

Service Grouping	2017/18	2018/19
	£m	£m
CYPS	1.750	23.882
REAL	2.735	35.836
Resources	0	1.774
Transformation & Partnerships	0	2.100
TOTAL	4.485	63.592

- 162 The new schemes detailed in Appendix 9 will ensure that the Council continues to invest in priority projects and essential maintenance programmes. Examples of additional investments are detailed overleaf:
- (a) **Highways Maintenance (2018/19 - £15.230million)** In line with previous years, a sum in addition to the LTP grant of £10.230million will be invested into highways maintenance. The additional sum of £5million will be especially important in light of the Government top slicing of LTP grant nationally;
 - (b) **Replacement of Deerness Bridge (2017/18 - £1.5million)** The bridge was closed early in 2016 with a temporary replacement put in place. This investment will enable the provision of a permanent replacement;
 - (c) **Peterlee Library Co-Location (2017/18 - £0.750million)** The aim is to integrate the library with the sports centre. The release of the current library site will enable the regeneration of the surrounding area;

- (d) **Finance Durham (2018/19 - £4.869million)** This further tranche of investment will continue progress in the investment of loans and equity in Durham County businesses to assist them to grow and thrive, supporting the local economy;
- (e) **Review of the Social Services Information Database (SSID – 2017/18 £1million – 2018/19 £2million)** The investment will enable the replacement of the current in house system with a modern fit for purpose system. OFSTED have identified the need to improve ICT systems which are utilised extensively by both Childrens and Adults and Health employees;
- (f) **School Maintenance (2018/19 - £3million)** Although the Council is expected to receive £10.4million in of government capital grant in 2018/19 to invest in school maintenance and school places, the funding is not sufficient to satisfy pressing demands. The additional £3million investment will enable high priority outstanding maintenance works in schools to be addressed;
- (g) **New Primary School – Bowburn (2018/19 - £7.12million)** There is a significant pressure within both Bowburn Infant and Nursery and Bowburn Junior school for new pupil places due to the new housebuilding in the area. Both schools are in need of significant investment and face particular problems in extending their current footprint. It is deemed value for money in this circumstance to build a new Primary School. Although there is a forecast £0.48million available from Section 106 monies an additional sum of £7.12million is required to build the new school.

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

Table 21 – New MTFP(7) Capital Programme

Service Grouping	2016/17	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m	£m
Adults and Health	0.896	0.526	0.000	0.000	1.422
CYPS	24.901	12.007	23.882	0.000	60.790
REAL	78.811	83.609	62.978	10.832	236.230
Resources	4.179	10.435	1.774	0.000	16.388
Transformation & P.	4.042	3.167	2.100	0.000	9.309
TOTAL	112.829	109.744	90.734	10.832	324.139
Financed by					
Grants/Contributions	37.544	44.726	35.588	0.100	117.958
Revenue/Reserves	2.040	4.935	1.155	0.000	8.130
Capital Receipts	8.728	17.700	18.568	0.000	44.996
Borrowing	64.517	42.383	35.423	10.732	153.055
TOTAL	112.829	109.744	90.734	10.832	324.139

Recommendations

164 It is recommended that Members:

- (a) approve the revised 2016/17 Capital Budget of £112.829million and the 2017/18 Capital Budget of £109.744million;
- (b) approve the additional capital schemes detailed at Appendix 9. These schemes will be financed from additional capital grants, from capital receipts, from one off revenue funding and from prudential borrowing;
- (c) note the option for the Council to utilise capital receipts to finance severance costs utilising the new flexibilities in this regard. The utilisation of such flexibility will require the approval of Cabinet;
- (d) approve the MTFP(7) Capital Budget of £324.139million for 2016/17 to 2019/20 detailed in Table 21.

2017/18 Savings Proposals

Transformation and Partnerships

- 165 To date spending reductions of just over £5.5million have been achieved over the course of MTFP(1) – (6). In 2017/18 a further £0.98million is required bringing the total amount of savings since 2011 to circa £6.5million;
- 166 The service grouping continues to identify opportunities to work more efficiently whilst providing support to the Council through a period of ongoing and considerable change, through the new transformation programme;
- 167 Since 2011 much of the service grouping's savings have been realised through reduction of management and support services. In 2016/17 savings were made through AAP Revenue Reduction, grant reductions, and reductions in staffing;
- 168 In 2017/18 there will be a reduction in members' budgets and a full service review will be undertaken;
- 169 For 2018/19 onwards Transformation and Partnerships will be delivering savings as part of the Transformation Programme, although a review of the service grouping will continue in order to identify further savings.

Children and Adults' Services

- 170 Spending reductions of over £98.3million will have been achieved over the course of MTFP(1) – (6) for both service groupings. In 2017/18 additional savings of £11million are required for the service groupings combined together with £18.2million of savings in 2018/19, which will bring the total savings requirement since 2011 to circa £127.6million;

- 171 During 2016 Children and Adults' Services have had a significant organisational change, splitting into separate service groupings Adult and Health Services and Children and Young People's Services, appointing a Corporate Director for both groupings and developing structures under the relevant directors. Environment, Health and Consumer Protection also became part of Adult and Health Services during the year as part of the corporate restructure.

Adult and Health Services

- 172 In 2017/18 savings of £6.3million are required.
- 173 The service continues to be faced with a significant amount of change both internally with the reorganisation of the service grouping and externally including the continuing demographic pressures arising from an ageing population with increasingly complex needs and support requirements, and statutory changes for personal independence payments.
- 174 In 2017/18 efficiency savings will be made through a more integrated approach to commissioning and transport procurement due to the level of transport needed for day care centres reducing.
- 175 As we continue to listen to the feedback from our customers we look at back office reductions where possible and savings will also continue to be realised through the planning and service strategy restructure which includes management and support efficiencies with the reduction of posts. This also involves staff who provide support within Children and Young People's services.
- 176 A relatively small saving for Environment Health and Consumer Protection has been transferred from Neighbourhood Service and will be delivered through reductions in premises, and the supplies and services budget in this area.
- 177 Some of the 2017/18 proposals that affect frontline services are savings arising from policy changes made in previous years, such as changes to day care provision, the implementation of a new adult care charging policy plus the continued focus on a consistent and effective use of the existing eligibility criteria. A review of non-assessed preventative service also continues from previous years.

Children and Young People's Services

- 178 In 2017/18 savings of £4.7million are required.
- 179 The service will be seeking to increase the income achieved through efficiencies resulting from collaborative working on a regional basis with partner organisations for adoption services.

- 180 Continuing savings arising from proposals delivered previously include a more targeted approach to youth work, which will focus resources on those most in need. In addition, savings will continue to be delivered through home to school transport policy changes.
- 181 There is a transformational change programme within Children's Services which includes rationalising accommodation, making more use of mobile / flexible working, a reduction in senior management, and efficiencies achieved through the Children's Social Care Innovation Project to integrate early help, assessment and intervention, focusing on family support.
- 182 All efforts continue to be made to minimise the impact as far as possible for vulnerable people in line with the views expressed by the public. This involves reviewing and changing operating models and working practices alongside the development of opportunities to work in a more integrated way with external partners. Where possible the decision to reprofile savings has been taken, with the agreement of Members, to further minimise impact for service users.

Regeneration and Local Services

- 183 Neighbourhood Services and Regeneration and Economic Development have also undergone significant organisational change and have been amalgamated to form a single service grouping Regeneration and Local Services (ReaL), reducing the number of Corporate Directors by one.
- 184 Spending reductions of £29.4million have been achieved over the course of MTFP(1) - (6) for Neighbourhoods and £21.5million for Regeneration and Economic Development; a combined total of £50.9million with a further £4.4million required in 2017/18. Since 2011 the total amount saved by both service groupings combined to the end of 2017/18 will be in excess of £55million.
- 185 Throughout the previous MTFPs, both service groupings had focused on protecting front line services, looking to restructure and review teams and wherever possible to deliver savings through more efficient ways of working, while also maintaining a level of service, working with partners to deliver our economic ambitions.
- 186 Areas where further efficiency reviews will be carried out in 2017/18 include business support, fleet and workshop, buildings and facilities, customer access points, grounds maintenance, Libraries and Museums. There will also be significant savings made from a restructure of the former Regeneration and Economic Development teams and this will include a proportionate reduction in supplies and services.
- 187 Savings will continue to be generated from the Street Lighting Energy Reduction programme replacing out of date street lighting with modern LED installations. In addition, there will be a number of invest to save efficiencies which include improving leisure centres.

- 188 Waste continues to be an area in which savings have been identified, with additional income being generated from Garden Waste charges, a review of environmental monitoring budgets and reduced costs around closed landfill sites through improved environmental management practices.
- 189 Whilst every effort has been made to minimise impact of frontline services in previous years it will become increasingly difficult in the future as austerity continues

Resources

- 190 In line with the views of the public the Council has consistently prioritised higher savings targets from Resources, which has resulted in savings since 2011 of £13.6million. In 2017/18 a further £3.2million reduction is required. This will mean from 2011 to the end of 2017/18 reductions totalling £17.5million will have been made.
- 191 All areas of the service grouping will be undergoing further reviews and restructuring during 2017/18 (and 2018/19) in order to deliver the savings required in these areas. This will include a review and restructuring of Revenues and Benefits (focusing on management savings), housing benefit processing efficiencies, e-enablement of service provision and review of advice service provision.
- 192 The service grouping also manage a range of additional savings from corporate areas including renegotiated contract prices for concessionary fares, additional dividends, and reductions of the insurance budget and annual Minimum Revenue Provision (MRP) charge. These proposals will deliver a further £3.7million of savings for MTFP(7) with additional savings in 2018/19 achieved from the annual subscription to the Association of North East Councils (ANEC) which is no longer required. On top of the £8.6million achieved to date since 2013 this will bring the total corporate savings in 2018/19 to circa £12million.

Recommendations

- 193 **It is recommended that Members:**
- (a) **note the approach taken by Service Groupings to achieve and deliver the required savings.**

Equality Impact Assessment of the Medium Term Financial Plan

- 194 Consideration of equality analysis and impacts is an essential element that members must consider in approving the savings plans at Appendix 4. This section updates members on the outcomes of the equality impact assessment of the MTFP(7).

- 195 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 mitigation actions which can be taken to reduce negative impact where possible;
 - (iii) Ensure that we avoid unlawful discrimination as a result of MTFP decisions.
- 196 As in previous years, equality impact assessments are being considered throughout the decision-making process, alongside the development of MTFP(7). This is required to support MTFP process decisions which are both fair and lawful. The process is in line with the Equality Act 2010 which, amongst other things, makes discrimination unlawful in relation to the protected characteristics listed above and requires us to make reasonable adjustments for disabled people.
- 197 In addition, the public sector equality duty requires us to pay ‘due regard’ to the need to:
- (i) eliminate discrimination, harassment and victimisation and any other conduct that is prohibited under the Act;
 - (ii) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (iii) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 198 All of the savings options presented at Appendix 4 have been subject to initial equalities impact screenings or full impact assessments where applicable. Some are existing assessments from previous years where there is a residual saving or a continuation of a savings proposal. Some are new and a number of proposals do not require an assessment, for example those involving savings in supplies and services.
- 199 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. 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 mitigation 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.

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

201 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 2017/18 Savings Proposals

202 A total of 26 screenings and assessments are available for Members to inform the decision making at this stage. The detailed documentation has been made available for Members via the Member Support Team ahead of this Cabinet meeting and a summary of the impacts of proposals is included below. These proposals have been re-organised to reflect the emergent corporate structure.

Table 22 – Equality Impact Assessment Analysis

Service Grouping	Number of Equality Impact Assessments Completed
Transformation and Partnerships	2
Adult and Health Services	5
Children and Young People’s Services	5
Regeneration and Local Services	7
Resources	7

203 Individual equality screenings reflect further detailed information about the impact of the changes and include any relevant mitigating actions. Where further decision making is required to finalise how these proposals will be implemented the impact assessments will be updated.

204 Proposals include potential service user impacts across age, gender and disability. In addition, staffing reviews have potential impacts across all protected characteristics. Fair treatment of staff will be ensured through

agreed corporate HR procedures contained within the Change Management Toolkit.

- 205 Specific potential impacts of MTFP(7) savings proposals are summarised by service below:
- (a) Transformation and Partnerships' proposals reflect a continuation of staffing review and a proposal to reduce Members' Locality Funding for projects and activities. This includes a greater emphasis on matched funded to mitigate the reduction and funding of local community projects will continue in line with local priorities leading to no disproportionate impact on groups with protected characteristics;
 - (b) the majority of savings proposals from Adult and Health Services reflect a continuation of previous years' savings, albeit some with new elements. The effective use of eligibility criteria will continue to deliver savings and ensures equitable treatment for adult social care users such as older people and those with a disability;
 - (c) a review non-assessed services affects non-statutory, community-based support which provides services for a range of vulnerable users supporting individuals to remain in their communities as long as possible. Current service users will not be affected, however some future service users may experience a reduction in service levels compared to what is currently offered, other future users may see services close. However, the overall impact will be minimised through service users being offered alternative support;
 - (d) the second phase of a service review of remaining in-house adult care services has the potential to disproportionately affect older adults, women and adults with a disability. The proposal involves achieving savings through new ways of working, including potential revisions to service delivery models, which may affect staff in terms of working patterns and reductions in contracted hours. However, the changes to the operating models are not anticipated to affect the level of service provided;
 - (e) a number of Children and Young People Service's proposals affect services provided for children and young people and have the potential to impact women as primary carers. Again, these changes largely reflect a continuation of previous years' savings, with further savings from the Youth Support Review and Review of Home to School/College Transport policies. Further changes to Children's Services and Education Services have the potential to impact a variety of services for children and young people with a disability, including direct payments for care, again with potential impacts for families with disabled children and women as primary carers. A consultation on Direct Payments ended on the 3 February 2017 and will proceed to final delegated decision making. The EIA will be updated to reflect consultation findings;

- (f) proposals for Regeneration and Local Services include proposals affecting the former Neighbourhood Services and Regeneration and Economic Development Services. These savings are unchanged from the previous MTFP update. Savings reflect service and staffing reviews across a variety of functions including a review of the fleet service and workshops, administration arrangements in business support, Customer Access Points and Contact Centres and Clean and Green. The aim of these reviews is to reduce staffing costs and supplies and services budgets whilst minimising the service impact. The Council's change management toolkit will be followed to ensure fair treatment for staff;
- (g) further savings from previous proposals include an increase of £5 a year to the Garden Waste charge, a change which has the potential to affect those with a disability who may not be able to use an alternative means of disposing of this waste and may therefore have to pay the cost of receiving this service. Ongoing savings for 2017/18 are being delivered by the Street Lighting Energy Reduction Project which has included full risk assessments to inform final decision making and is showing no evidence of disproportionate impacts on groups with protected characteristics;
- (h) proposals also include a review of staffing arrangements and minor changes to opening hours for Killhope Museum and a review of libraries supplies and services. In these cases changes are relatively minor and not likely to result in any significant disproportionate impact on groups or service users;
- (i) a review of all former Regeneration and Economic Development (RED) staffing areas will lead to a reduction in core staffing costs. While the aim of these reviews is to achieve savings through natural turnover, ER/VR and minimal recruitment, impacts on service delivery will be monitored and the impact assessment updated throughout decision making process. Again the Council's change management toolkit will be followed to ensure fair treatment;
- (j) further staffing reviews are proposed in Resources, affecting support services such as HR, Financial Services, Legal and Democratic Services and Internal Audit. Again these proposals remain unchanged since the July MTFP Cabinet update. These staffing reviews are not anticipated to have negative impacts on service delivery or specific groups or communities and will follow the Council's change management toolkit to ensure fair treatment;
- (k) a restructure in the Revenues and Benefits service will prioritise rationalisation of management and supervision layers and redesigning the processes. A further part of this proposal is to reduce the funding paid to the Citizens Advice County Durham for the provision of advice services. Overall, these changes have the potential to affect service users with a wide range of protected characteristics but this proposal

will seek to minimise impacts on service delivery. There is a potential positive impact for service users of Citizens Advice services as it is intended that the new contract will increase provision of telephone advice.

Recommendations

206 **It is recommended that Members:**

- (a) 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;**
- (b) 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;**
- (c) note the ongoing work to assess cumulative impacts over the MTFP period which is regularly reported to Cabinet.**

Workforce Considerations

- 207 MTFP(1) which covered the period from 2011 to 2015 originally forecast a reduction in posts of 1,950 against a savings target of £123.5million. Since MTFP(1) however, the savings target has increased significantly with the revised savings targets up to the end of 2017/18 being £245.3million.
- 208 Looking ahead, with the significant savings plans of £23.4million in 2017/18 there will be further reductions in workforce numbers. For 2017/18 the forecast is a further reduction of approximately 302 posts including the deletion of an anticipated 65 vacant posts. It is currently forecast that by the end of 2017/18 the reduction in post numbers will be 2,674 of which 663 will have been via the deletion of vacant posts.
- 209 Further detailed planning is underway to identify the forecasted numbers for 2018 to 2020 and, recognising the principles adopted to date in workforce reduction exercises within Service Groupings, the Council will take all possible steps to avoid compulsory redundancies and minimise the impact upon the workforce in these next stages of change. The continued approach of forward planning, retaining vacant posts in anticipation of any required change, seeking volunteers for early retirement and/or voluntary redundancy and maximising redeployment opportunities for the workforce will minimise wherever possible the necessity for compulsory redundancies in the process.
- 210 In addition, the way that work is organised and jobs are designed will continue to be reviewed by Service Groupings. This will ensure that as changes continue to be made, the Council maximises the capacity of the remaining workforce through skills development and the introduction of flexibility into the

way work is organised, in order to maximise the capability of the remaining workforce.

Pay Policy

- 211 The Localism Act 2011 requires the Council to prepare and publish a pay policy statement annually which sets out the authority's policy relating to the remuneration of its Chief Officers, and how this compares with the policy on the remuneration of its lowest paid employees.
- 212 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.
- 213 Additionally, the Act requires that in relation to Chief Officers the policy must set out the authority's arrangements relating to:
- (a) the level and elements of remuneration for each Chief Officer;
 - (b) remuneration of Chief Officers on recruitment;
 - (c) increases and additions to remuneration for each Chief Officer;
 - (d) the use of performance-related pay for Chief Officers;
 - (e) the use of bonuses for Chief Officers;
 - (f) the approach to the payment of Chief Officers on their ceasing to hold office under or to be employed by the authority;
 - (g) the publication of and access to information relating to remuneration of Chief Officers.
- 214 There will be no change to the current process where Parish Councils meet the full costs of their individual by-elections. The pay policy statement presented at Appendix 10 includes the fees of the Returning Officer and deputies and other personnel employed in county or parish elections. A report will be presented to Full Council on 22 February 2017, which will recommend the appointment of the Chief Executive as the Returning Officer for the 2017 Local Council elections due to the retirement of the current Returning Officer. The Chief Executive has indicated that the Returning Officer fee is to be shared between the Deputy Returning Officers rather than being paid to himself.
- 215 The Pay Policy Statement at Appendix 10 is for Council consideration and outlines the details for the authority for 2017/18, in line with the above requirements.

Recommendations

216 It is recommended that Members:

- (a) approve the Pay Policy Statement at Appendix 10.

Risk Assessment

217 The Council has previously recognised that a wide range of financial risks need to be managed and mitigated across the medium term. The risks faced are exacerbated by the localism of business rates and the localisation of council tax support. All risks will be assessed continually throughout the MTFP(7) period. Some of the key risks identified include:

- (a) ensure the achievement of a balanced budget and financial position across the MTFP(7) period;
- (b) ensure savings plans are risk assessed across a range of factors e.g. impact upon customers, stakeholders, partners and employees;
- (c) government funding reductions are based upon the Local Government Finance Settlement. A four year finance settlement has been secured and should provide certainty in relation to future RSG reductions. There is still a risk however that a deterioration in the public finances could result in further savings targets for local government in excess of those agreed to date;
- (d) the localisation of council tax support passed 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;
- (e) 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(7);
- (f) the impact of future increases in inflationary factors such as the national living wage will need to be closely monitored;
- (g) the council continues to experience increases in demand for social care services. Although some allowance is made for demand increases across the MTFP(7) period this issue will need to be closely monitored;
- (h) possible impact of Brexit which could affect future government finance settlements, inflation and European funding.

Recommendations

218 **It is recommended that Members:**

- (a) **note the risks to be managed over the MTFP(7) period.**

Dedicated Schools Grant (DSG) and School Funding 2017/18

219 DSG is a specific earmarked grant provided by the Government which provides the major source of funding for schools and the provision of support to them. It is notionally split into three 'blocks': Early Years, High Needs and Schools. Local authorities are currently able to transfer funding between blocks but all funding must be spent on schools or support to them. The 2017/18 allocations from the Department for Education (DfE) incorporate the effect of previous years' transfers, based on information provided through a baseline exercise undertaken in 2016 as part of preparation for the introduction of a National Funding Formula which will dictate funding for individual schools from 2019/20.

Early Years

- 220 The Early Years block provides funding for 3 to 4 year old provision (570 hours of free early education or childcare a year); the service is provided by maintained nursery schools, nursery units in primary schools and academies, and Private, Voluntary and Independent (PVI) sector providers.
- 221 A provisional allocation has been provided by the DfE, based on the 2016/17 allocation. The actual 2017/18 allocation will not be announced until the summer, based on the number of eligible children recorded in the January 2017 pupil census.
- 222 Funding is also provided through the Early Years Block to provide free early education places for eligible 2 year-olds from lower income households. The allocation is based on participation and a provisional allocation has been provided by the DfE based on census data taken in January 2016. The DfE will not announce the actual 2016/17 allocations until July 2017, which will be based on the number of eligible children participating in early education recorded in the January 2017 census. The rate per hour for Durham has been confirmed as £5.20 per hour, which is an increase of £0.35 per hour (7.2%) on the 2016/17 funding level.
- 223 Early Years Pupil Premium is also funded through the Early Years block and a provisional allocation has been provided by the DfE, again based on the 2016/17 allocations. As with the other elements of the Early Years funding, the 2017/18 final allocation will not be announced until the summer, based on the number of eligible children recorded in the January 2017 pupil census. The funding rate of £0.53 per hour in 2016/17 continues into 2017/18, which equates to £302.10 for each eligible child taking up the full 570 hours of state funded early education.

- 224 In 2016, the DfE conducted a consultation on introducing an Early Years National Funding Formula (EYNFF) with effect from April 2017, to complement the introduction of an additional entitlement for children of working parents equal to 15 hours/week from September 2017 (30 hour childcare policy). The EYNFF is intended to ensure that funding rates for the existing 15 hour entitlement are in line with the funding rates for the additional 15 hours entitlement.
- 225 As part of the introduction of the EYNFF, funding rates will increase for 2017/18, because of additional national funding of £300million. Durham is estimated to receive c£0.75million additional funding for existing 3/4 year old provision and a further £3.674million of funding for the additional entitlement from September 2017.
- 226 As part of the EYNFF, the Council will also be required to implement a universal base rate for all providers and this is being consulted on for implementation from April 2017. This is of concern to maintained nursery schools, which have higher costs than other providers, (e.g. the cost of employing a headteacher) and which currently receive additional funding through a formula; the formula includes a deprivation element, a lump sum and an allowance for rates. The DfE have recognised that maintained nursery schools provide a high quality provision, often in deprived areas and has allocated supplementary funding in addition to National Funding Formula to ensure that authorities can continue to provide funding to these schools through a formula in 2017/18.

High Needs Block

- 227 The High Needs Block provides funding for pupils with high cost Special Educational Needs (SEN), i.e. those pupils requiring provision in specialist settings costing more than £10,000 per year or those pupils in mainstream primary and secondary schools whose provision costs more than £6,000 per year. The SEN provision that is funded from the High Needs Block is as follows:
- (a) specialist placements in out-of-County settings;
 - (b) place based funding for special schools;
 - (c) top-up funding to reflect additional costs for individual pupil support in both special and mainstream schools;
 - (d) SEN support services.
- 228 The DfE are currently consulting on a High Needs National Funding Formula, which will be implemented in 2018/19. This will replace the current system which is based on local authority historical spend and results in a wide discrepancy in the level of funding to authorities across the country. The 2017/18 allocation for the High Needs Block is still based on historic allocations.

Schools Block

- 229 The Schools Block provides the principle source of funding for all mainstream primary and secondary schools in respect of the education of pupils from Reception to Year 11, but also includes centrally retained DSG funding. Funding for these schools is currently distributed according to a local formula determined by the Council after consultation with its Schools Forum and the schools themselves. The local formula must comply with statutory regulation and there are significant limitations over which factors can be applied in the local formula. This regulation limits the discretion of local authorities in determining their local formulas and requires that at least 80% of funding is distributed through factors related to pupil numbers and needs. The formula set by the Council applies to all mainstream schools – maintained, academy and voluntary aided schools. There is no difference in terms of DSG funding provision save for academies receiving their funding allocations on an academic year, whereas maintained schools receive their DSG funding on a financial year basis.
- 230 For 2017/18 the schools formula is being changed to reduce the lump sum for primary schools from £167,500 per school to £160,000 and the £1.62million of funding released will be re-allocated to secondary schools. This is the second year of a planned two-year change, intended to address concerns about the funding of secondary schools, many of which are struggling to provide a broad and balanced curriculum within current levels of funding levels.
- 231 The total allocation to the Schools Block is based on an amount for each pupil recorded in the October 2016 School Census. The amount per pupil is based on historic allocations, but also takes account of relative levels of need between different local authorities. In 2017/18 the DSG funding per pupil is £4,674.21, which is £25.04 (0.54%) more than the 2016/17 rate. The difference reflects the outcome of the baseline exercise undertaken by the DfE earlier this year and the increase reflects historic transfers of funding rather than any additional funding:
- (a) the net effect of transfers between blocks agreed in previous years;
 - (b) incorporation of funding for newly qualified teachers that was provided separately in previous years;
 - (c) funding transferred from the Education Service Grant (ESG) in respect of statutory duties undertaken by the Authority for all schools and academies.
- 232 The DfE are currently consulting on a National Funding Formula (NFF) to replace local formulas for mainstream primary and secondary schools. At present the DfE's intention is to use the NFF to determine funding for each school in 2018/19, but then allow local authorities to re-allocate this funding through a local formula, which will be an interim stage before replacing local formulas altogether from 2019/20. Local authorities are being encouraged as

part of the consultation to adopt a local formula in 2018/19 which moves the schools in that area more towards the proposed NFF outcomes.

- 233 The draft version of the NFF, issued as part of the consultation, allocates funding according to a number of different criteria:
- (a) a basic amount per pupil;
 - (b) relative measures of deprivation (eligibility for Free School Meals and the area where a pupil lives);
 - (c) low prior educational attainment;
 - (d) a lump sum per school;
 - (e) an allowance for schools in sparsely populated areas;
 - (f) an amount for pupils with English as an Additional Language;
 - (g) a measure of the mobility of pupils;
 - (h) non-domestic rates;
 - (i) schools with split-sites;
 - (j) exceptional premises costs including for PFI schools.
- 234 In addition, the draft NFF includes an area cost adjustment, which increases funding through some of the other criteria in areas where staff costs are deemed to be particularly high. This is a particularly contentious part of the formula, because it tends to divert funding away from regions such as the north east. The Council will be responding to the consultation about the NFF and is encouraging individual schools to do so as well.
- 235 Initial work indicates that around half of mainstream primary and secondary schools could see reductions in funding, but given the sensitivity of funding to pupil numbers this position could change by the time that the national formula replaces local formulas in 2019/20. Schools that are already causing financial concern are unlikely to benefit from the NFF unless they see a significant increase in pupil numbers.
- 236 The NFF proposals will be disappointing news for a number of schools and governing bodies across the county who were hoping for more significant regional distribution of funding. Some schools may need to consider some radical collaborative solutions to be able to maintain the academic standards we expect to support the equality of opportunities and aspirations the council has for all of the young people of Durham and the long term economic prosperity of the county.

- 237 Looking to the future, the Council will need to consider the long-term implications for school organisation, in particular the number of small mainstream schools. It is important that the Council has a planned approach to the pattern and provision of schools which is based on 'real' financial projections under the NFF. Cabinet approved the council's strategic approach to school organisation in December 2016, therefore it is important that any proposals for re-organisation are aligned to the principles agreed in that strategy.
- 238 The Council will also need to consider its approach to the local formula in 2018/19, in respect of whether to make changes that will make the local formula more like the NFF. This could reduce turbulence when the NFF replaces local formulae in the following year, but schools that lose funding might question why the Council is doing this earlier than is necessary. Equally, schools that expect to gain funding from the NFF might question any decision not to make changes to the local formula. It is likely that in the run up to 2018/19, schools will be in a much better position to compare the funding that they could get through the NFF with their funding through the local formula and to challenge the Council about the local formula.

Pupil Premium

- 239 Pupil premium for schools and academies in Durham for 2016/17 is £26.29million. Pupil Premium rates for 2017/18 will remain the same as for 2016/17 and these rates are shown in the following table:

Table 23 – Pupil Premium Rates 2017/18

	Amount per eligible pupil £
Deprivation Pupil Premium – Primary	1,320
Deprivation Pupil Premium – Secondary	935
Looked After Children	1,900
Children adopted from care or who have left care	1,900
Service Children	300

- 240 The numbers of pupils eligible for pupil premium for 2017/18 will be provided by the Education Funding Agency; overall the numbers are likely to be similar to 2016/17, but may vary more widely for individual schools.
- 241 DSG and Pupil Premium funding for 2017/18 is shown in the table overleaf:

Table 24 – DSG and Pupil Premium Funding

DSG Block	Amount per pupil	Pupils	Allocation
	£/pupil		£m
Early Years Block (3-4 yr olds-universal)	2,456.70	7,402	18.184
Early Years Block (3-4 yr olds-working parents)	2,456.70	1,496	3.674
Early Years Block (2 yr olds)	2,964.00	1,820	5.395
Early Years Block (EYPP)			0.392
Early Years Block (Maintained Nursery School supplement)			1.307
Early Years Block (Disability Access Fund)			0.123
High Needs Block	-	-	44.692
Schools Block (including ESG funding of £1.02million)	4,674.21	62,683	292.994
Total DSG			366.761
Pupil Premium (2016-17 figure)			26.289
TOTAL			393.050

242 Primary and secondary formula funding for Academies in County Durham is estimated to be £83.854million, based on the Durham formula factors. This funding is recouped by the Education Funding Agency and allocated directly to the individual schools, leaving £309.196million of DSG funding payable to the Council for maintained schools.

Recommendations

243 **It is recommended that Members:**

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

Prudential Code

244 This section outlines the Council's prudential indicators for 2017/18 to 2019/20 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements:

- (a) 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;
- (b) 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;

- (c) 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;
- (d) 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.

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

246 It is proposed that the Minimum Revenue Provision (MRP) Policy be amended to allow for changes in the way in which MRP is calculated, in line with the following principles:

- (a) for existing assets pre 1 April 2008, MRP will be charged at 2.5% per annum;
- (b) capital expenditure post 1 April 2008 - for all assets financed by unsupported borrowing, MRP will be charged over the estimated life of the assets;
- (c) finance leases/ PFIs - the MRP charge will be equal to the principal element of the rental or charge that goes to write down the balance sheet liability created from such arrangements.

247 These changes to the way in which MRP is calculated will generate a revenue budget saving whilst still ensuring that the level of provision is prudent.

Recommendations

248 **It is recommended that Members:**

- (a) **agree the Prudential Indications and Limits for 2017/18 – 2019/20 contained within the Appendix 11 of the report, including the Authorised Limit Prudential Indicator;**
- (b) **agree the Minimum Revenue Provision (MRP) Statement contained within Appendix 11 which sets out the Council's policy on MRP;**

- (c) **agree the Treasury Management Strategy and the treasury Prudential Indicators contained within Appendix 11;**
- (d) **agree the Investment Strategy 2017/18 contained in the Treasury Management Strategy (Appendix 11 including the detailed criteria).**

Summary of Recommendations

249 Detailed below is a summary of the recommendations Cabinet wish to recommend to Full Council for approval:

(a) 2017/18 Revenue Budget

- (i) approve the identified base budget pressures included in paragraph 111;
- (ii) approve the investments detailed in the report;
- (iii) approve the 2017/18 savings plans detailed in Appendix 4;
- (iv) approve a 1.99% 2017/18 Council Tax increase and a further 2% increase which relates to the Adult Social Care precept, totalling 3.99%;
- (v) approve the 2017/18 Net Budget Requirement of £387.594million.
- (vi) delegate to the Corporate Director Resources in consultation with the Cabinet Portfolio Holder for Finance any adjustments required to balance the budget after the receipt of the final Local Government Finance settlement

(b) MTFP(7)

- (i) agree the forecast 2017/18 to 2019/20 MTFP(7) financial position;
- (ii) set aside sufficient sums in Earmarked Reserves as is considered prudent. The Corporate Director Resources should continue to be authorised to establish such reserves as required to review them for both adequacy and purpose on a regular basis reporting appropriately to the Cabinet Portfolio Member for Finance and to Cabinet;
- (iii) aim to maintain General Reserve in the medium term between 5% and 7.5% of the Net Budget Requirement which in cash terms is up to £29million.

(c) Capital Budget

- (i) approve the revised 2016/17 Capital Budget of £112.829million and the 2017/18 Capital Budget of £109.744million;
- (ii) approve the additional capital schemes detailed at Appendix 9. These schemes will be financed from additional capital grants, from capital receipts and from prudential borrowing;
- (iii) note the option for the Council to utilise capital receipts to finance severance costs utilising the new flexibilities in this regard. The utilisation of such flexibility will require the approval of Cabinet;
- (iv) approve the MTFP(7) Capital Budget of £324.139million for 2016/17 to 2019/20 detailed in Table 21.

(d) Savings Proposals

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

(e) Equality Impact Assessment

- (i) consider the equality impacts identified and mitigating actions 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.

(f) Pay Policy and Terms and Conditions Changes

- (i) approve the Pay Policy Statement at Appendix 10.

(g) Risk Assessment

- (i) note the risks to be managed over the MTFP(7) period.

(h) Dedicated Schools Grant

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

(j) Prudential Code

- (i) agree the Prudential Indications and Limits for 2017/18 – 2019/20 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 2017/18 contained in the Treasury Management Strategy (Appendix 11 including the detailed criteria).

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Appendix 1: Implications

Finance – The report sets out recommendations on the 2017/18 Budget and for the MTFP(7) period 2017/18 – 2019/20.

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

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

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

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

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

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

Consultation – Full information on the MTFP(7) consultation process are contained in the report.

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

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

Legal Implications – The Council has a statutory responsibility to set a balanced budget for 2017/18. It also has a fiduciary duty not to waste public resources.