

## **The Budget Setting Process 2019/20 – 2022/2023**

### **SUMMARY**

- 1.1 This report outlines the proposed Medium Term Financial Strategy for the Council's revenue and capital budget over the period 2019/20 to 2022/23.
- 1.2 Key steps in the process are summarised below:
- Review the Council's current Medium Term Financial Plan;
  - Review and confirm the Medium Term Financial Strategy;
  - Investigate and outline the national context for local government within Central Government Spending Review. The next Spending Review is expected in 2019;
  - Investigate and incorporate the local context for Derby;
  - Review and agree alignment with the Council Plan priorities;
  - Continue to update the Medium Term Financial Plan;
  - Review/Challenge and incorporate the Council's capital strategy and programme and the consequential Revenue Budget consequences;
  - Review and incorporate the treasury management strategy for loan and investments;
  - Highlight risks and mitigation with the final budget
  - Review the adequacy of reserves to mitigate risk
  - Finalise Consultation requirements and Budget timetable and consider feedback from consultation and build into final budget setting process

### **RECOMMENDATION**

- 2.1 To note the information contained within this report regarding the Budget Setting Process.

### **REASONS FOR RECOMMENDATION**

- 3.1 To provide an overview to Corporate Services Scrutiny Board regarding the Budget

Setting Process.

## **SUPPORTING INFORMATION**

### **4.1 The Budget Setting Process**

4.2 The council has a statutory obligation to set a balanced revenue and capital budget for 2019/20 by March 2019. Under the Prudential Code established by the Local Government Act 2003, it is also required to demonstrate the affordability of its revenue budget for the two subsequent financial years, after taking into account its plans for capital expenditure.

4.3 In order to set a balanced revenue and capital budget an appropriate annual timetable has been established covering key requirements and appropriate engagement. The current Medium Term Financial Plan timetable for 2019/20 – 2022/23 can be found at Appendix 2.

### **4.4 Key Steps in the Budget Setting Process**

#### **4.5 Review the Council's current Medium Term Financial Plan**

The Medium Term Financial Plan provides a focus on both revenue expenditure (day-to-day running costs of providing services) and capital expenditure (long-term investment in infrastructure, for example schools and roads). The plan is the forecasted £ 'numbers' and shows any current and future savings gap that has to be met to deliver a balanced budget.

4.6 The Medium Term Financial Plan is a dynamic position and will change as we move through the budget planning process. The Model will therefore be regularly updated and reported to the Corporate Leadership Team and Cabinet over the planning period as outlined in the Budget Timetable.

#### **4.7 Review and Update the Medium Term Financial Strategy**

The Medium Term Financial Strategy is the council's key financial planning document that assesses the revenue, capital and treasury management impact on the Council's budget. It aims to provide the council with an assurance that the council's spending plans are affordable over the medium term. Developing a Medium Term Financial Strategy helps to collate all known factors affecting an organisation's financial position and its financial sustainability in one place.

- 4.8 The strategy outlines the resource projections for the forthcoming years, the financial challenges that the council faces including cost and service demand increases, any potential growth and the planned approach to meet the priorities identified by the Council. It also outlines inflationary pressures, significant risks the council is facing and considers actions to mitigate these risks. This is a key piece of work that needs to be continually refreshed to confirm it contains the appropriate assumptions. The current Medium Term Financial Strategy was agreed by Cabinet on 18 July 2018. The Strategy gives further detail on Derby's approach to the budget setting process.

4.9 Investigate and outline the national context for local government

The Medium Term Financial Plan is being updated to reflect any intelligence gained from the national context for local government. This will include taking into account any announcements by the Chancellor on Local Government funding for example changes to the level of Revenue Support Grant or Business Rate Tariffs. It will also include funding changes in other Public Services for example further government funding for the National Health Service may mean a reduction in funding available for Local Government.

Any known national legislative changes that create a budget pressure will also need to be built into The Medium Term Financial Plan, these announcements may occur at any stage of the planning process and therefore best estimates will need to be incorporated in to the plan and developed over the period of the planning process.

4.10 Investigate and incorporate the local context for Derby

The Council's Medium Term Financial Strategy is shaped by the national context but also by the need to respond to increasing service demands from our communities at the local level coupled with the Council's aspirational improvements and maintenance through capital investment. The impact of appropriate local demands and impacts need to be included in the plan to ensure all of the requirements are covered in the budget setting process.

4.11 Review and agree alignment with the Council Plan

The Council Plan sets out strategic priorities which support Derby City's vision and the outcomes the council wants to achieve. The Council Plan needs to align with the Medium Term Financial Strategy to ensure the Authority is focussing its finite and reducing resources in the appropriate areas.

4.12 Continue to update the Medium Term Financial Plan

Throughout the process the Medium Term Financial Plan (the £ numbers) needs to be regularly updated. The figures included in the draft Medium Term Financial Plan are based on the council's latest forecasts based on best estimates and assumptions, and are included for planning purposes. These figures will change as further information becomes available throughout the process. The Council will need to develop proposals to address the total savings targets to ensure a balanced and sustainable budget position is achieved.

4.13 Review and incorporate the Council's capital strategy and programme

The Capital Strategy provides the long term context in which capital investment decisions are made and the governance for those decisions. The annual capital programme is updated for new proposed schemes, revised profiling, slippage and changes in expenditure projections.

4.14 The Strategy looks to develop indicative proposals further to include any service rationalisations, external funding secured, capital receipts available as well as proposed indicative allocations for Highways and Schools. The strategy will also align with our Treasury Management Strategy to apply cash balances rather than having the need to borrow whilst interest rates remain at such low percentages.

4.15 Review and incorporate the treasury management strategy

The financial climate impacts on our borrowing and investment strategies, which support the revenue budget and capital programmes. The Medium Term Financial Plan includes assumptions on the level and timing of borrowing using forward estimates of borrowing and investment rates which are continually reviewed due to fluctuations in financial markets. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement while usable reserves and working capital are the underlying resources available for investment.

4.16 Highlight risks and mitigation with the final budget

As with any plan or forecast the risk of variances and uncertainties exists. Careful planning can reduce risk but the Council must be aware of the potential variations that can arise and have an identified strategy for dealing with resulting pressures. The risks to the Medium Term Financial Plan can effect in year or future years' budgets.

4.17 Review the adequacy of reserves to mitigate risk

A key part of the Medium Term Financial Plan process is the review of current levels of reserves and contingency budgets to ensure adequate cover for future planned needs and unforeseen eventualities and to identify any reserves or contingencies which can be released to support the delivery of a balanced budget.

4.18 Reserves are held to enable long-term budgetary stability and allow the Council to manage change without undue impact on Council Tax. Reserves are set at a level that recognises the financial risks facing the Council. The greater the level of uncertainty, the more likely reserves will be needed. The Council prepares its budget using the best information available at the time but inevitably includes some uncertainty. A prudent balance needs to be maintained between holding too much and too little money in reserves. If reserves are too low, this increases the Council's exposure to risk and endangers its capacity to deliver priorities in a planned and prudent fashion.

4.19 Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report to the Council on the robustness of the estimates it makes when calculating its budget requirement under the Local Government Finance Act 1992.

4.20 Consultation and Budget timetable

A series of budget and strategy meetings will take place throughout the year to ensure the Council can prepare a balanced budget position in line with statutory deadlines. These meetings will focus on the development and scrutiny of budgets and budget proposals to agree plans to close any budget gap. The development of the budget will be undertaken alongside the development of the Council Plan for 2019/20 – 2022/23.

4.21 The budget proposals including draft Council Plan priorities will be communicated for consultation to the public via the Council's website as well as to other partners and the business community before the final recommendations to Council Cabinet and Full Council. It should also be noted that equality impact assessments are completed for every budget proposal if appropriate. The budget proposals and draft Council Plan will be considered by Corporate Leadership team and Cabinet Portfolio holders before Council Cabinet recommends the budget and Council Tax to Full Council in February 2019. See Appendix 2 for the latest 2019/20 – 2022/23 Budget And Council Plan Timetable.

<b>OTHER OPTIONS CONSIDERED</b>
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5.1 There is a statutory requirement to set a balanced budget for 2019/20. A range of options to achieve this will be considered during the budget planning process.

**This report has been approved by the following officers:**

<b>Legal officer</b> <b>Financial officer</b> <b>Human Resources officer</b> <b>Estates/Property officer</b> <b>Service Director(s)</b> <b>Other(s)</b>	
<b>For more information contact:</b> <b>Background papers:</b> <b>List of appendices:</b>	Toni.Nash@derby.gov.uk 01332 643337 July 18 2018 Council Cabinet Paper - Medium Term Financial Strategy 2019/20 - 2022/23 Appendix 1 – Implications Appendix 2 – Budget Timetable

## **IMPLICATIONS**

### **Financial and Value for Money**

- 1.1 There are no direct financial implications arising from this report as it is for information.

### **Legal**

- 2.1 The Council has a statutory duty to set a balanced budget.

### **Personnel**

- 3.1 Budget proposals are evaluated for personnel implications, particularly those which may trigger the need for individual consultation

### **IT**

- 4.1 None

### **Equalities Impact**

- 5.1 Equality impact assessments are a key part of assessing budget proposals.

### **Health and Safety**

- 6.1 None

### **Environmental Sustainability**

- 7.1 None

### **Property and Asset Management**

- 8.1 None

### **Risk Management**

- 9.1 Delivery of the Medium Term Financial Plan is a key risk which is reflected in the strategic risk register. The budget setting process is a mitigating action to reduce the likelihood of issues arising.

### **Corporate objectives and priorities for change**

- 10.1 The budget setting process and timetable is designed to align with review of the Council Plan to ensure that resources are allocated in accordance with the latest priorities.

## Appendix 2

### UPDATED BUDGET AND COUNCIL PLAN TIMETABLE 2019/20 – 2022/23

KEY DATES	MEETING	Commentary/Update
09 February 2018	Initial Budget Process Meeting Strategic Director and Heads of Finance	Completed – All Heads of Finance and Interim Strategic Director
20 March 2018	Update on Medium Term Financial Plan to Directors Workshop	Completed – Head of Corporate Resources
27 March 2018	Update on Medium Term Financial Plan to all Heads of Service	Completed – Interim Strategic Director of Resources
25 April 2018	Chief Officer Group – MTFP meeting – Plan Update and Directorate issues	Completed – COG and Heads of Finance
1 May 2018	Chief Officer Group – MTFP meeting – Plan Update and Directorate issues	Completed – COG and Heads of Finance
8 May 2018	Chief Officer Group – MTFP meeting – Plan Update and Directorate issues	Completed – COG and Heads of Finance
May 2018	Pressure Identification and Saving Proposal Development	Ongoing
4 June 2018	MTFP further Planning	Completed – Interim Director Of Resources, Head of Finance, Head of Performance and Delivering Differently Programme Manager
12 June 2018	Directors Update (to include all directors)	All Directors- HOFs and Head of Performance.
26 June 2018	Review of emerging priorities for consideration in Council Plan 2019/20 onwards	Completed and included in the draft MTFS Report to Cabinet on 18 July 2018
26 June 2018	COG approve draft Medium Term Financial Strategy 2019/20 to 2021/22	Draft report approved by COG
3 July 2018	Directors workshop	Completed. Ideas for savings being considered
18 July 2018	Cabinet approve Medium Term Financial Strategy 2019/20 to 2022/23	Updated post pre-agenda and published on website for 18 Meeting
31 July 2018	Meeting with Leader to discuss early thoughts on Council Plan priorities	Completed - Director of Communities & Place and Head of Performance.

KEY DATES	MEETING	Commentary/Update
14 August 2018	CLT - Pressure Identification and Savings Proposals workshop 1	MTFP updated throughout Session 9am –1pm
21 August	CLT - Pressure Identification and Savings Proposals workshop 1	At the beginning of the CLT session – all HOFs to attend
24 August 2018	CLT - Pressure Identification and Savings Proposals workshop 2	MTFP updated throughout. Session 1.00 - 4.30pm – Cancelled as finalised on the 21 August 2018
28 August 2018	CLT review of draft priorities for Council Plan	Completed.
18 September	CLT Workshop on MTFP latest position and Council Plan priorities	Session 1pm – 5pm
21 September 2018	CLT / Cabinet discussion on MTFP latest position and Council Plan priorities –	This assumes all individual cabinet members have been briefed by appropriate strategic director Session 1.30 – 4.30pm
21 September 2018	Launch consultation on Council Values with managers and colleagues.	
25 September 2018	Review of new Council Plan project plan by CLT consideration	
2 October 2018	The MTFP - Pressures and Savings finalised and Final Draft Budget circulated to Chief Officer Group and model update	Action – MTFP model update required for this session including all pressures and savings outlined Session 10-12:30
2 to 10 October October	Portfolio holders approve draft budget for 2019/20 to 2022/23 for consultation.	Individual Strategic Directors– during first weeks of October
10 October 2018	Portfolio holders approve draft Council Plan priorities for 2019/20 – 2022/23 and draft Final Budget	
10 – 31 <sup>st</sup> October 2018	Produce Consultation Document	Consultation team with input from Finance
31 <sup>st</sup> October 2018	Public consultation starts on draft budget and draft Council Plan (9 weeks)	
November 2018	Completion of Equality Impact assessments for budget proposals	
<b>November 2018</b>	<b>Public Scrutiny meetings</b>	<b>To be confirmed</b>



KEY DATES	MEETING	Commentary/Update
<i>December 18<sup>th</sup> 2018</i>	<i>Budget scrutiny: Scrutiny Review Boards</i>	<i>To be confirmed</i>
18 December 2018	Budget scrutiny: Executive Scrutiny Board	Needs review as timetable has been updated in previous months.
<i>December 2018</i>	<i>Government announce Draft Local Authority financial settlement</i>	<i>Toni Nash – could result in changes to the budget</i>
2 January 2019	Consultation Ends	
January 2018	Results of Public Consultation exercise compiled	Consultation Team
13 February 2019	Cabinet approve draft budget and Council Plan for 2019/20 to 2022/23	Toni Nash
1 March 2019	Full Council approve budget and Council Plan for 2019/20 to 2022/23	
<i>March 2019</i>	<i>Government announce Final Local Authority financial settlement</i>	