Public Document Pack

Janie Berry
Director of Legal and Democratic Services
County Hall
Matlock
Derbyshire
DE4 3AG

Extension 38327
Direct Dial 01629 538327
Ask for Roy Ackrill

PUBLIC

To: Members of Council

Tuesday, 1 October 2019

Dear Councillor,

Please attend a meeting of the **Council** to be held at **2.00 pm** on **Wednesday, 9 October 2019** in the Council Chamber, County Hall, Matlock, DE4 3AG, the agenda for which is set out below.

Yours faithfully,

Janie Berry

JANIE BERRY
Director of Legal Services

A G E N D A

PART I - NON-EXEMPT ITEMS

1. Apologies for absence

   To receive apologies for absence (if any)

2. Declarations of interest

   To receive declarations of interest (if any)

3. Chairman's announcements

4. Minutes (Pages 1 - 16)

To confirm the minutes of the meeting of the Council held on 17 July 2019

5. Report of the Leader of the Council and Members' questions

   To consider the report of the Council Leader and Members' questions on the report

6. Public questions

   To consider public questions (if any)

7. Petitions

   To receive petitions (if any)

To consider reports on the following:

8 (a) Statement of Accounts 2018-19 and Annual Audit Letters 2018-19 - Director of Finance & ICT (Pages 17 - 96)

8 (b) Revenue Budget Monitoring 2019-20 (as at 30 June 2019) - Director of Finance & ICT (Pages 97 - 114)

8 (c) Five Year Financial Plan - Director of Finance & ICT (Pages 115 - 184)

8 (d) LGPS Central Pool Governance Arrangements - Executive Director for Commissioning, Communities and Policy (Pages 185 - 188)

PUBLIC

Agenda Item

MINUTES of the meeting of the **DERBYSHIRE COUNTY COUNCIL** held on 17 July 2019 at County Hall, Matlock

PRESENT

Councillor T Ainsworth (In the Chair)

Councillors D Allen, R Ashton, K S Athwal, J Atkin, N Atkin, Mrs E Atkins, S A Bambrick, N Barker, B Bingham, J Boult, S Brittain, S Bull, Mrs S Burfoot, K Buttery, Mrs D W E Charles, Mrs L M Chilton, A Dale, Mrs C Dale, J E Dixon, Mrs H Elliott, R Flatley, M Ford, Mrs A Foster, J A Frudd, K Gillott, A Griffiths, Mrs L Grooby, Mrs C A Hart, G Hickton, R Iliffe, Mrs J M Innes, T A Kemp, T King, B Lewis, W Major, P Makin, S Marshall-Clarke, C R Moesby, P Murray, G Musson, R A Parkinson, Mrs J E Patten, J Perkins, Mrs I Ratcliffe, B Ridgway, C Short, P J Smith, S A Spencer, A Stevenson, S Swann, D H Taylor, Mrs J A Twigg, M Wall, G Wharmby, Mrs J Wharmby, Ms B Woods and B Wright.

43/19 **APOLOGIES FOR ABSENCE** Apologies for absence were submitted on behalf of Councillors Mrs S L Blank, J A Coyle, Mrs A Fox, D McGregor, R Mihaly and Ms A Western.

44/19 **DECLARATIONS OF INTEREST** Councillor I Ratcliffe declared a personal interest in Agenda item 9 (a) – Departmental Service Plans 2017-21 (2019-20 update) as a Trustee of Waltham House.

45/19 **CHAIRMAN’S ANNOUNCEMENTS** The following announcements were made:-

(a) The Chairman invited all Members to stand and observe a minute’s silence for Remembering Srebenica, 7 to 14 July 2019.

(b) The Historic County Day of Celebration was 23 July 2019 and Derbyshire’s County Day was 22 September 2019, when the county flag would be flown.

(c) Today was the 130th anniversary of the County Council. On behalf of the Council, the Chairman thanked Councillor Parkinson, the Civic Chairman of Derbyshire County Council for hosting the commemorative lunch.

(d) The Monitoring Officer would be emailing all Members with a reminder to ensure that Elected Member declarations of interest were up to date, especially for those who had different responsibilities following the local elections.

46/19 **MINUTES OF THE COUNCIL MEETING** On the motion of Councillor B Lewis, duly seconded,

RESOLVED that the minutes of the meeting of the Council held on 15 May 2019 be confirmed as a correct record.

47/19 **REPORT OF THE LEADER** Councillor B Lewis, Leader of the Council, informed the Council that there was nothing to report.

48/19 **COUNCILLOR QUESTIONS**

(a) Question from Councillor K Buttery to Councillor B Lewis, Cabinet Member for Strategic Leadership, Culture and Tourism

Does the Leader of the Council agree that every single elected member within this Chamber has a duty to speak out against discrimination, including anyone who is tolerant of discrimination?

Councillor Lewis responded to the question as follows:

It is an important point and it is absolutely the case that all elected members have a duty to do so.

I am not going to single out individual members today, I hope there is sufficient self-awareness that they may know who they are, but I will say this: politics in recent years has taken some very interesting twists and turns and extremes of views, Left or Right. We have seen some reinterpretations of the notions of ‘free speech’. It is fundamentally important that whenever elected members, whether they sit over *here* or over *there* see or hear expressions or statements that are clearly dog whistles or that on the face of it might sound benign but excuse discrimination or dismiss it out of hand, that they challenge those particular views.

Let me make the point that no party is immune. I am not going to claim that ours is without its problems. Every barrel has its bad apples. What we can’t let them do is spoil the whole barrel. We want to provide training over here at County that will help us all tackle discrimination, including homophobia, and enable us to spot the signs so that we are able to respond and have the confidence to respond accordingly.

I think it is important that that particular piece of training has real world context to enable us to see those issues faced by Jewish and Islamic communities in this country and within the respective political parties. I would therefore suggest that the nature of that training needs to include speakers from affected communities within the two main political parties so that we can see for ourselves why these issues must be tackled.

Councillors absolutely must have that confidence to challenge discrimination and I am sure every member in this room, Councillor Buttery, will attend such a session. I think we need to nip this in the bud. Let's show we mean it when we say we are against all forms of discrimination.

Councillor Buttery asked the following supplementary question:

I have to say I do welcome the additional training. I think it is important as elected members that we recognise and have the confidence to actually challenge discrimination in whatever format. Can you just let me know what the next step is moving forward and the timescale?

Councillor Lewis responded to the supplementary question as follows:

What we anticipate is I will have a conversation with Councillor Musson who leads on training within the organisation. We will put together some form of training and hopefully by the end of this autumn have something in place that all members can sign up for then and we will make sure we have the appropriate trainers in place to do that as well.

49/19 <u>PUBLIC QUESTIONS</u>

(1) Question from Vanessa Prueitt to Councillor A Dale, Cabinet Member for Young People

An EHCP should take 20 weeks, I personally know of many families experiencing delays and currently receiving 5 hours or less in education per week (mine included); this is having a huge effect on children's mental health and their education due to delays. What actions will you take to speed up response times according to code of practice in which your department should be following?

Councillor Dale responded as follows:

In relation to the timeliness of EHCPs you are right in that the statutory timescale within which this should be completed is 20 weeks.

We monitor the timeliness of EHCPs rigorously and we know that we are not meeting the 20 week deadline in all cases. As a result a number of actions have been taken to try to address this issue as we know it is not good enough for our families and we are committed to improving it. Some of the actions we have taken include:

- Improving our data reporting so that it shows more clearly the progress of the completion of plans and if there is any danger of them going out of timescales at the different points in the process. This enables managers to take action and monitor more effectively.

- We have changed the way we operate the decision to assess Panels so that the decisions can be taken in a more timely way. Also additional Panels have been put in place to ensure we can take decisions within the six weeks allocated for that part of the process.

- We are changing the way that the consultation happens with the agreed schools or settings so that this part of the process is done in a more timely way to prevent any delay.

- In terms of checking and moderation of the assessment, this is now done in localities rather than centrally which we have found to be more effective.

- We have also employed additional staff in the locality teams to try and add capacity to assist with the amount of workload that that service is currently managing.

In relation to educational provision, ordinarily children should have a school place while the education, health and care needs' assessment is being undertaken and therefore access to full-time education (unless they have been permanently excluded). However, we do know that sometimes for some children, even with additional support, it can be difficult for them to attend their placement.

Therefore, while the needs' assessment is completed and the EHCP agreed, children who are out of school due to their medical needs or social, emotional or mental health needs are supported through blended programmes of education.

These programmes are tailored to meet individual needs and comprise of direct teaching and also e-learning support. The proportion of each element of the blended programme varies according to the needs and the circumstances of each young person. This can include for example:

- Direct teaching from an out of school tuition tutor
- Real-time, direct teaching on-line that constitutes a full-time programme
- Access to our virtual learning environment which enables children from across the whole statutory school age range to broaden their learning
- As well as other activities such as Forest Schools

Where the circumstances require, a child may be offered a full-time, direct teaching offer out of the home. These are only ever intended on a temporary basis and reintegration back into school is always our objective. Support is provided throughout the child's 'journey' back into school, in order to build resilience and support the child's emotional health and well-being.

Whilst I am unable to comment in this forum on any individual situation I hope that that information is helpful for you. Thank you for your question.

The following supplementary question was asked:

Do think it is acceptable for special needs' children to be out of education for twelve months or more? I know of 15 or more families who are actually going through this process so where you are saying there is actual help and support effectively there isn't.

Councillor Dale responded to the supplementary question as follows:

Absolutely not, I don't think it is acceptable and as I have explained in answer to the question we do work extremely hard to try and offer provision for those children who are not able to access their placement. We work extremely hard with children who are permanently excluded to get them an alternative placement. Clearly more needs to be done and I have outlined some steps there where we need to speed up the process of issuing the EHCPs to ensure that placements are there for children. I agree with you there is a lot of work being done, and I am sure there is always more work to be done, but I do take on board what you are saying.

(2) Question from Sharon Davis to Councillor A Dale, Cabinet Member for Young People

From April 2018 to the present day July 2019 and as a result of the National funding formula over-estimation of the number of children and young people with EHCPs attending Derbyshire schools, how much have some individual schools received in overspend (in multiples of £6k)?

Councillor Dale responded as follows:

The National Funding Formula does not allocate on the basis of the number of pupils with Educational Health Care Plans. It does, though, allocate significant Low Prior Attainment funding to schools with pupils not achieving a 'good level of development' in primary schools, or those who do not achieve the expected level at Key Stage 2 in one or more of reading or writing or mathematics in secondary school. That includes children with Special Educational Needs and Disabilities.

The Local Authority's formula for 2019-20 - which mirrors very closely the National Funding Formula - allocated £15.2m to primary and £12.06m to secondary schools as Low Prior Attainment funding, so schools with a higher number of children not achieving the expected standard, including those with additional educational needs, do receive a higher Low Prior Attainment budget allocation.

Low Prior Attainment funding is based on individual child data reported by schools which is then aggregated by the DfE. Therefore, the allocations reflect the number of children who have not achieved a good level of development within each school.

As the funding is not issued on the basis of an estimation of children with EHCPs, and nor is it issued in multiples of £6,000, I am afraid it is not possible to answer your question in any more detail than I have provided.

The following supplementary question was asked.

Several schools in Derbyshire with more than the usual number of SEND children have not been given enough SEND funding to pay the basic cost. They need help from Derbyshire County Council to survive. What advice would you give to such a school? Should they try not to accept any more SEND children or should they take the money from the budget intended from other children?

Councillor Dale responded to the supplementary question as follows:

As you know we will be discussing the motion put forward by Councillor Smith later today. You will know it is something we as an administration feel strongly about. We are lobbying our own Government on the issue of school funding. We hopefully have a couple of candidates for the leadership who are taking that issue more seriously, so I think we have the opportunity for some progress soon on that issue. We will continue to campaign on that issue.

In terms of advice for schools, I would hope in the forthcoming budgets we may have some better news for them.

(3) Question from Frank Gorman to Councillor A Dale, Cabinet Member for Young People

Is the County Council, as Trustee of the Chesterfield Schools Foundation, happy that the 0.36% return currently being generated by the Charity's investments is the best available?

Councillor Dale responded as follows:

The question may only require a 'yes' or 'no' answer but in true politician fashion I am afraid I am going to give you a bit more than that.

As part of the Office for Civil Society and the Charity Commission's Revitalising Trust Initiative, Derbyshire County Council has undertaken a review of its portfolio of educational Trusts, many of which have become ineffective over time due to the very small amounts of money that they hold, or because their charitable objectives are too restrictive or no longer relevant.

We are working closely with Foundation Derbyshire (our local Community Foundation) to identify the most appropriate ways to update those Trusts so that they can be better administered for the benefit of local schools and educational learning projects.

The Chesterfield Schools' Foundation is included in the review and part of that process will be to identify more effective and efficient returns on investment, which in turn will provide more money for grant making. We will be able to share the detail of those proposals publicly once we have completed our consultation with the affected beneficiary schools. Thank you.

The following supplementary question was asked.

Is this policy going to alter as a result of a major windfall that the Charity receives from the sale of her stamps in the region of up to

£400,000 which will make it the largest charity in Chesterfield?

Councillor Dale responded to the supplementary question as follows:

I am happy to provide a written response following the meeting on that point, Mr Gorman, if that is okay.

(4) Question from Rob Tresidder to Councillor T King, Cabinet Member for Economic Development and Regeneration

In the light of the Council's refusal to declare a climate emergency at its last meeting in May and in the context of the motion that was passed, could the Council please say what progress has been made with the objectives outlined in that motion and in the carbon reduction manifesto published the week before. Please could this question be answered bearing in mind the absence of any proposals on mitigating climate change on today's agenda, the absence of any new material on the council's website and the measly two column inches on page three of the Council's own magazine, Derbyshire Now.

After speaking to Mr Tressider he was happy with a written response. He would then send his second question in which would also be responded to in a written manner. He was happy with that.

50/19 **PETITIONS** There were none received.

51/19 **DEPARTMENTAL SERVICE PLANS (2017-21 (2019-20 UPDATE)** Service Plans set out how each department would contribute to the outcomes and priorities set out in the Council Plan refresh 2019-21. The Council Plan outcomes, which outlined what the Council was working towards with partners and local people were as follows:

- **Resilient and thriving communities** which shared responsibility for improving their areas and supporting each other
- **Happy, safe and healthy people,** with solid networks of support, who felt in control of their personal circumstances and aspirations
- **A strong, diverse and adaptable economy** which made the most of Derbyshire's rich assets and provided meaningful opportunities for local people
- **Great places to live, work and visit** with outstanding schools, diverse cultural opportunities, transport connections that kept things moving and a healthy environment for all
- **High quality public services** that worked together and alongside communities to deliver services that met people's needs

The five priorities outlined in the Council Plan, which provided a focus for effort and resource, were:

- Value for money
- A prosperous Derbyshire
- Empowered and self-sufficient communities
- A focus on prevention and early intervention
- High performing council services
- The Service Plans described how departments would work towards achieving the outcomes and priorities set out above. Performance measures were included in the Service Plans, however in some cases baseline and target information was still to be confirmed due to the need for data that was not fully available until later in the year.
- Divisional plans had also been developed by each department, and these enabled more detailed planning for the delivery of departmental service plans and business as usual activities within divisions. The divisional plans were held within departments.

On the motion of Councillor B Lewis, duly seconded,

RESOLVED to approve the departmental Service Plans 2017-21.

52/19 **<u>DERBYSHIRE PENSION BOARD</u>** In April 2015, Council approved the establishment of the Derbyshire Pension Board, as required by the Local Government Pension Scheme (Amendment) Regulations 2015.

Council further agreed, in September 2017, to staggered terms of office for Board members, and to extending Board members' tenure to four years in order to support continuity.

Further to Council's approval in May 2019 to appoint a new Employer Representative, O Fishburn, the membership of the Board was as follows:

Role	**Name**	**Start Date**	**Term**	**Expiry**
Member Rep	N Read	June 2018	4 years	June 2022
Member Rep	K Gurney	June 2015	4 years	June 2019
Employer Rep	O Fishburn	May 2019	4 years	May 2023
Employer Rep	N Calvert	Sept 2018	4 years	Sept 2022

As K Gurney's period of tenure expired in June 2019, the established process was undertaken to recruit to the vacancy, and a panel comprising the Chair of the Board and officers of the Council had selected and recommended the following candidate for appointment to the Derbyshire Pension Board:

Role	**Name**	**Start Date**	**Term**	**Expiry**
Member Rep	K Gurney	July 2019	4 years	July 2023

Karen Gurney had been a committed and productive member of the Pension Board since it was established in 2015 and had contributed significantly towards its development. The panel was, therefore, very pleased to receive an application from her for a further period of service, and had no hesitation in recommending her reappointment.

On the motion of Councillor B Lewis, duly seconded,

RESOLVED to approve the appointment of K Gurney to the Member Representative vacancy on the Board for a fixed term of 4 years.

53/19 **CONSTITUTION UPDATE FROM THE GOVERNANCE, ETHICS AND STANDARDS COMMITTEE** At its meeting on 4 July 2019, the Governance, Ethics and Standards Committee received a report from the Monitoring Officer following an initial review of the constitution. This had resulted in the Governance, Ethics and Standards Committee recommending the following changes to the Constitution:

a) Article 20 – Officers (page 71)

An amendment to the Table which appeared at paragraph 20.1 (c) which should read:

Post	Designation
Executive Director for Commissioning, Communities and Policy *(note the underlined extract was the proposed additional wording)*	Head of Paid Service

b) Amendments to the Scheme of Delegation for the Director of Communities Services in relation to Trading Standards Activities: (pages 104 – 107)

It was proposed that the following legislation was added to the current Scheme of Delegation:

- Animals Act 1971;

- Energy Act 2011;
- Environmental Protection Act 1990;
- Offensive Weapons Act 2019;
- European Union (Withdrawal) Act 2018;
- Health and Safety at Work etc. 1974 ss19-26; and
- Tenant Fees Act 2019.

The following extract was amended to read:

(a) any Orders or Regulations made thereunder or relating to any of the foregoing or having effect by virtue of the European Communities Act 1972 or the European Union (Withdrawal) Act 2018 ; (*note the underlined extract was the proposed additional wording)*

That the following legislation was removed from the Scheme of Delegation:

- Medicines Act 1968

c) <u>Amendments to Article 8 (pages 21 and 22)</u>

The list at paragraph 8.1 was amended to reflect the correct composition of the Improvement and Scrutiny – People Committee and read as follows:

People – comprising 9 Members, 2 Church representatives (1 from the Church of England diocese and 1 from the Roman Catholic diocese with voting rights in respect of education matters only and otherwise non-voting), 2 Parent Governor representatives (with voting rights in respect of education matters only and otherwise non-voting) and 2 trade union representatives (non-voting)

It had become apparent that the scrutiny arrangements as described in the current Constitution were particularly outdated. Therefore, in the interim, pending the review, it was proposed to replace the table in Article 8 paragraph 8.2 with the table attached at Appendix 1 which better reflected the remit of each of the Improvement and Scrutiny Committee.

d) <u>Public Questions at meetings of the Improvement and Scrutiny Committees</u>

Over recent months there had been a growing interest by members of the public and interest groups and organisations to ask questions at the respective Improvement and Scrutiny Committee meetings.

The Health Scrutiny Committee developed a protocol to accommodate this and as good practice, this had now been extended to all of the Council's Improvement and Scrutiny Committee meetings.

At its meeting on 6 June 2019, meeting the Resources Improvement and Scrutiny Committee suggested some helpful amendments and points of clarification and the Governance, Ethics and Standards Committee was asked to consider these and to approve the inclusion within the Council's Constitution to aid transparency.

The Guidance on Public Questions was based very closely on the Council Procedure Rules for Public Question at Full Council Meetings.

A copy of the amended and now proposed Guidance appeared at Appendix 2 to this Report and it was proposed that this Guidance would be incorporated into the Appendices section of the Constitution.

Receipt of Statutory Guidance on Overview and Scrutiny in Local and Combined Authorities issued by MHCLG

On 7 May 2019, MHCLG issued the long awaited Statutory Guidance on Overview and Scrutiny in Local and Combined Authorities. A copy of this Guidance appeared at Appendix 3 of this report.

During the course of the last municipal year, the Governance, Ethics and Standards Committee (formerly known as the Standards Committee) took a decision to delay the review of the Council's delivery of Improvement and Scrutiny in so far as the Council's Constitution was concerned until this current year following receipt of central government guidance.

As this Guidance had now been received, approval of the Governance, Ethics and Standards Committee had been sought in order for the formal review of the Council's scrutiny arrangements to commence. A detailed report would be presented to Full Council for consideration during the course of this municipal year.

It was proposed that this review was completed within this municipal year.

On the motion of Councillor B Lewis, duly seconded,

RESOLVED to (1) approve the proposed amendments to the Council's Constitution as recommended by the Governance, Ethics and Standards Committee on 4 July 2019; and (2) note the receipt of the

Statutory Guidance on Overview and Scrutiny in Local and Combined Authorities.

54/19 **TO RECEIVE AND DEBATE MOTIONS** Council considered a Notice of Motion as set out below:-

Motion submitted by Councillor P Smith

As a result of ongoing Government cuts in Derbyshire there are schools in Derbyshire which have had a cash loss in the budget of more than £200,000 over two years. Some schools have lost up to a quarter of their staff. Some schools have had their SEND budget halved.

The National Funding Formula allocating financial resources to schools includes a requirement that schools themselves have to fund the first £6,000 of the support for the most disadvantaged Special Educational Needs pupils (SEND), those with Education Health and Care plans (EHCP). The formula guesses the number of SEND children at a school based upon the size of the school and the deprivation in that area. It does not take into account the number of SEND children at a school.

This results in schools who develop a good reputation for supporting disadvantaged students facing an unsuitable financial burden when more SEND pupils attend than the National Funding Formula predicts.

It also results in children with additional needs finding it difficult to get a school place. In particular this is a problem when children change schools for example entering reception or beginning secondary school.

Derbyshire County Council resolves to ensure every Derbyshire SEND pupil gets the education they are entitled to get by:

- Urgently looking at setting up a discretionary fund so that those schools which are penalised by the National Funding Formula because they have more SEND Children than predicted can be given more financial support; and

- To continue to pressure the government for more funding to be invested in education, especially SEND; and

- To bring a report outlining the proposals for funding the discretionary fund and progress made with the government to the next Full Council meeting.

The motion was duly seconded.

An amendment to the motion was moved by Councillor A Dale, duly seconded, that the motion be amended to read:-

Derbyshire County Council recognises that schools are facing significant financial challenges as a result of rising cost pressures and funding which, although increasing in recent years, has not adequately kept pace in real terms. A variety of factors can have a significant effect on a school's financial situation, including the age and condition of its buildings, staffing levels and the complexity of the needs of its pupil population.

Council is also aware that some inclusive schools, who have developed a good reputation for supporting disadvantaged students and those with special educational needs and disabilities, feel that they have become a victim of their own success, in that their demands are increasing but the funding has not adequately reflected this.

Council recognises the National Funding Formula as a positive step forward but believes that Government must go further in making it fairer and more transparent, by removing the historic inequalities in the system and increasing the basic entitlement for schools to ensure the core running costs are met. Council also believes that significant additional investment in both the schools block and high needs block is required urgently by the Government.

In addition, Derbyshire County Council resolves to ensure every Derbyshire SEND pupil gets the education they are entitled to get by:

- Urgently reviewing the Discretionary Contingency Fund, in consultation with the Schools Forum, so that those schools which feel penalised because they have more SEND children can be given more financial support; and

- To continue to pressure the Government for more funding to be invested in education, especially SEND; and

- To bring a report outlining progress on reviewing the Discretionary Contingency Fund and with the Government to a future Full Council meeting within the next six months.

The amendment to the motion was duly seconded, voted upon and declared to be WON.

At the request of at least five Members, a recorded vote was taken and recorded as follows:

For the motion (49) Councillors T Ainsworth, D Allen, R Ashton, K S Athwal, J Atkin, N Atkin, S A Bambrick, N Barker, B Bingham, J Boult, S Bull, Mrs S Burfoot, K Buttery, Mrs D W E Charles, A Dale, Mrs H Elliott, R Flatley, M Ford, Mrs A Foster, J A Frudd, K Gillott, Mrs L Grooby, Mrs C A Hart, G Hickton, R Iliffe, Mrs J M Innes, T A Kemp, T King, B Lewis, W Major, S Marshall-Clarke, C R Moesby, P Murray, G Musson, R A Parkinson, Mrs J E Patten, Mrs I Ratcliffe, B Ridgway, C Short, P J Smith, S A Spencer, A Stevenson, S Swann, D H Taylor, M Wall, G Wharmby, Mrs J Wharmby, Ms B Woods and B Wright.

Against the motion (0).

Abstained (0).

This page is intentionally left blank

Agenda Item No

DERBYSHIRE COUNTY COUNCIL

COUNCIL

9 October 2019

Report of the Director of Finance & ICT

STATEMENT OF ACCOUNTS 2018-19 AND ANNUAL AUDIT LETTERS 2018-19

1 Purpose of the Report

This report presents the approved Statement of Accounts 2018-19 and the external auditor's ISA 260 reports for 2018-19 (Audit Completion Reports) and Annual Audit Letters for 2018-19.

2 Information and Analysis

Statement of Accounts 2018-19

The Accounts and Audit Regulations 2015 require the Director of Finance & ICT to certify the Council's pre-audit Statement of Accounts for the year ended 31 March by 31 May and the Audit Committee to approve the post-audit version before 31 July.

The certified pre-audit Statement of Accounts were submitted to the Council's external auditors, Mazars, on 31 May 2019.

Under the Local Audit and Accountability Act 2014 (Sections 25 to 28) and the Accounts and Audit Regulations 2015 (Regulations 10, 14 and 15), the Council's accounts for the year ended 31 March 2019 and certain related documents (comprising books, deeds, contracts, bills, vouchers and receipts) were made available for public inspection from 1 June 2019 to 12 July 2019, Monday to Friday. One query was received, in relation to two grants awarded under the Community Priorities Programme (CPP) and seven projects supported under the Community Leadership Scheme (CLP).

The core financial statements in the Statement of Accounts are:

- Comprehensive Income and Expenditure Statement (CIES)
- Balance Sheet
- Cash Flow Statement

- Movement in Reserves Statement (MiRS)
- Pension Fund Accounts
- Annual Governance Statement

The Statement of Accounts were approved and the external auditor presented its draft ISA 260 reports for 2018-19 and audit opinions at the Audit Committee meeting on 23 July 2019. The Pension Fund Accounts will be reported to the Pensions and Investments Committee in October.

The external auditor acknowledged the Council's positive and constructive approach to their audit and thanked Members and Officers for their support and full co-operation during the audit.

Audit adjustments were required to the Statement of Accounts as follows:

Council Accounts - The Council prepares its accounts in accordance with the CIPFA/LASAAC Code (the Code), which is underpinned by International Financial Reporting Standards. The Code relevant to the 2018-19 accounts was updated for the adoption of a new accounting standard, IFRS 9 Financial Instruments. A technical requirement of the new standard was that the carrying value of some loans, which had been restructured in previous years, was adjusted. The carrying value of these loans was adjusted accordingly, with a modification gain posted through the Comprehensive Income and Expenditure Statement (CIES). As a result of additional work in July, undertaken by Mazars' review team, it was identified that this should have been treated as a transitional adjustment directly between liabilities and reserves and not posted to the CIES. The value of the modification gain was £29.224m.

Council Accounts - Estimation of the Council's net liability to pay pensions depends on several complex judgements relating to: the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, pending cases which could affect the level of future benefits and expected returns on Pension Fund investments. The Council has engaged Hymans Robertson LLP as its Consulting Actuary (Actuary) to provide expert advice about the assumptions to be applied to the Derbyshire Pension Fund (Fund). The effect of changes in these estimates on the net pension liability of the Council are reviewed on an ongoing basis. The following updates were required:

- Update of Fund asset values based on actual asset returns to 31 March 2019, rather than those in the pre-audit accounts projected by the Actuary from the position at December 2018 (as is usual practice). The Council understands that the Actuary uses very broad categories of assets when projecting asset returns, which do not always match the Fund's specific allocations. Furthermore, the high level of uncertainty this year about the implications of Britain leaving the European Union also impacted on investment returns. The value of the Council's share of Fund assets decreased by £31.662m (increasing Fund net liabilities by the same amount).

- Inclusion of allowances in the Actuary's estimate of pension fund liabilities for 'the McCloud judgement' and 'GMP equalisation'. These were referred to in the Council's pre-audit accounts in Note 5, Assumptions Made and Other Estimation Uncertainty but were excluded from the Actuary's estimate of liabilities. This issue has been the subject of national discussion between external audit firms and actuarial firms, after the pre-audit statutory deadline. Inclusion of an allowance for these two matters has resulted in an increase in the Actuary's estimate of the Council's share of Fund liabilities of £14.317m (around 0.5% of gross Fund liabilities).

Pension Fund Accounts – One Pooled Investment Vehicle was re-classified from quoted to unquoted investments, to correct a coding error in the Fund's general ledger. This impacted only on the Fund's investment disclosure notes and not on the Fund's primary statements.

Audit work was completed to reach a conclusion that there were no unadjusted material errors in the Statement of Accounts. In the Council Accounts the Council's properties were valued as at 1 April 2018, in accordance with usual practice. Indexation of the Council's properties to values as at 31 March 2019 indicated an increase in value of £18.402m. The Council did not adjust its 2018-19 Statement of Accounts for this matter because the increase is immaterial. There were no unadjusted immaterial errors in the Pension Fund Accounts.

Three recommendations were raised in respect of the Council Accounts and action is being taken as follows:

- Valuation process controls – there were a number of issues with land and buildings valuations; a misclassification of agricultural land as residential land, the omission of a school building and an inconsistent approach to the valuation of homes for older people. No material errors were identified. Steps have been taken to correct and address these matters, together with the control weaknesses identified in 2017-18; a valuation manual has been introduced to improve the accuracy and consistency of the valuation work undertaken. The valuation manual is a living document utilised by the asset valuation team to ensure effective valuation delivery. The property valuation team will focus on fully embedding the processes set out in the manual.

- Contracts of employment controls – two contracts of employment could not be located. The Shared Services Centre (SSC) did not hold the full employee file for two school employees, as this was the schools' responsibility. However, the Council acknowledges the importance of proper procedures for logging and sending documentation in respect of schools who purchase the Council's traded services package and for retaining contractual documentation. Procedures will be reviewed, to ensure that an accurate record is maintained within the SSC for all future documentation generated.

- Completeness of related party transactions controls – three Members had not declared their membership of another public sector body on their declaration forms. No inherent conflicts of interest were involved. The Council's new constitution came into effect on 15 May 2019 and the importance of full disclosures will form part of the training sessions associated with the new constitution.

One recommendation was raised in respect of the Pension Fund Accounts and action is being taken as follows:

- Pension payroll to general ledger reconciliations – during the audit a pension payroll to general ledger reconciliation was provided to Mazars but this took more time than anticipated. The Council will review, develop and implement a reconciliation process during 2019-20.

The external auditor also revisited the following further recommendations from 2017-18:

- Council and Pension Fund Accounts - whilst the position has improved with regard to controls over privileged access users of the Council's SAP financial system, with any changes to the status of users with this access being actively managed by senior finance staff, the Council has additionally agreed to introduce a documented incident management policy which covers user access issues.

- Pension Fund Accounts – recommendations around pension records were to be taken forward with a new Pension Fund Administration System. The new system went live on 4 March 2019. Discussions are ongoing with the supplier of the new system regarding the resolution of a diminishing number of outstanding implementation issues.

Audit Committee will be provided with an update in respect of these control recommendations before the end of the financial year.

The external auditor's ISA 260 reports for 2018-19 for the Council and the Pension Fund (Audit Completion Reports) are attached at Appendix One. Copies of the approved Statement of Accounts are available on the Council's website https://www.derbyshire.gov.uk/council/council_tax/statement_of_accounts/default.asp

Annual Audit Letter

The Council's external auditor is required to present an Annual Audit Letter to Members and officers of the Council. The letter describes the scope of the audit work for the financial year and reports on matters of significance arising from that work. It is a summary of its conclusions and provides an external assessment of the Council's overall financial position.

The letter is a means by which the appointed auditor fulfils its statutory requirements, which are derived from the Audit Commission Act 1998 and the Audit Commission's Code of Audit Practice. The external auditor is required to provide an opinion on the Council's financial statements and a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

The issuing of the letter, along with an audit certificate, marks the end of the audit process for 2018-19. The Council has published on its website that the audit has been concluded in accordance with the Accounts and Audit Regulations 2015.

The letters issued for the Council and the Pension Fund are attached at Appendix Two.

3 Considerations

In preparing this report the relevance of the following factors has been considered:- financial, human resources, legal and human rights, equality of opportunity, health, environmental, transport, property, crime and disorder and social value considerations.

4 Background Papers

Copies of the approved Statement of Accounts will be made available at the meeting.

5 Officer's Recommendation

That Council notes the report, the approved Statement of Accounts 2018-19 and the external auditor's ISA 260 reports for 2018-19 and Annual Audit Letters for 2018-19.

PETER HANDFORD

Director of Finance & ICT

Audit Completion Report

Derbyshire County Council

Year ended 31 March 2019

MAZARS

CONTENTS

Mazars LLP
Park View House
58 The Ropewalk
Nottingham
NG1 5DW

Audit Committee
Derbyshire County Council
County Hall
Matlock
DE4 3AG

23 July 2019

Dear Members

Audit Completion Report – Year ended 31 March 2019

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 27 March 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0787 5974291.

Yours faithfully

Mark Surridge
Mazars LLP

Mazars LLP – Park View House, 58 The Ropewalk, Nottingham, NG1 5DW
Tel: 0115 964 4744 – www.mazars.co.uk

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Derbyshire County Council ('the Council') for the year ended 31 March 2019, and forms the basis for discussion at the Audit Committee meeting on 23 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control;
- Expenditure recognition;
- Revenue recognition;
- Property, plant and equipment valuation; and
- Defined benefit liability valuation

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B

Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, by the extended deadline of 13 September 2019. We anticipate reporting that the WGA submission is consistent with the audited financial statements.

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Pensions	● (green)	Finalising our work in relation to the significant risk areas relating to the net Pensions liability, reviewing the latest IAS19 valuation report and the disclosures in the final set of the financial statements. We also need to review and action the latest PwC report (for NAO) on the Actuaries' work regarding estimating pension liabilities following the GMP/McCloud judgements. The timeliness of our work in this area has been impacted by this national issue that has resulted in the majority of local authorities having to obtain a revised valuation that has impacted all local Authorities
Valuation of PPE	● (amber)	Finalising our work in testing the significant risk areas relating to the valuation of non-current assets, including clearing our queries on indexation with the Council's valuer and Officers
Closure procedures	● (green)	Review and closure processes, including final consideration of adjustments, post balance sheet events and checking the revised financial statements.
Whole of Government Accounts	● (green)	We are awaiting the completed Cycle 2 DCT submission and associated working papers before we can complete our work and issue our audit certificate.

Status

- ● (red) Likely to result in material adjustment or significant change to disclosures within the financial statements
- ● (amber) Potential to result in material adjustment or significant change to disclosures within the financial statements
- ● (green) Not considered likely to result in material adjustment or change to disclosures within the financial statements

In addition to the above, we have some residual procedures to complete, including:

- Checking the amendments to the draft financial statements proposed by management to correct matters identified during the audit; and
- Clearing any remaining quality control review points and completing the remaining audit closure steps.

We will provide the Audit Committee with an update in relation to these outstanding matters, prior to signing the auditor's certificate.

Our audit approach

We have not made any significant changes to our audit approach since the planning stage of our audit.

1. EXECUTIVE SUMMARY

Materiality

Our assessment of materiality has changed slightly since our planning procedures as set out in the table below.

	Planning	Final
Benchmark selected	2017/18 Gross Expenditure	2018/19 Gross Expenditure
Benchmark %	2%	2%
Materiality £'000	31,754	31,169
Performance Materiality £'000	20,640	20,260
Trivial Threshold £'000	953	935

We set materiality at the planning stage of the audit at £31,754m using a benchmark of 2% of Gross Operating Expenditure, although erroneously our Audit Strategy Memorandum said £30.2m. Our final assessment of materiality, based on the final financial statements and qualitative factors is £31.2m, using the same benchmark.

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Council's financial statements. Our performance materiality has decreased slightly from planning from £20.64m to £20.26m.

We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee), at £0.953m based on 3% of overall materiality We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee), at the planning stage of the audit at £0.95m, which has decreased slightly to £0.94m.

Specified Materiality

Area	Rationale	Materiality
Officers' remuneration	Sensitive information: this is an aspect of the accounts that can receive a high profile as it sets out highest paid staff	Pay bandings: £5,000
Termination payments	Sensitive information related to pay	£374,000
Members Allowances	Sensitive information related to pay	£215,000
Audit fee	As this also discloses fees for non-audit services and could be used to interpret potential conflicts of independence it is important that the amount disclosed is accurate	£23,000

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee.

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 12 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk by:

- Documenting our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding;
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewing the calculation of management's material accruals, estimates and provisions for evidence of management bias;
- Evaluating the business rationale for any significant transactions outside the course of the business;
- Understanding the oversight given by those charged with governance of management process over fraud;
- Making enquiries of management and Internal Audit regarding actual or any suspicions of fraud; and
- Considering whether the Council's accounting policies are consistent with industry standards.

Clarification from the Audit Strategy Memorandum

In our Audit Strategy Memorandum we also said we would:

- Sample test accruals and provisions based on established testing thresholds; and
- Review material aspects of capital expenditure on property plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

This work has been performed, with no issues arising. However, we wish to clarify that this testing was not to address this Significant Risk, they formed part of our standard audit procedures.

Audit conclusion

Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to management override of controls.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Expenditure recognition	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council (FRC),which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular the completeness and valuation of manually accrued payables Due to the nature and/or value of expenditure on employee expenses, interest payments, depreciation, impairments and loss on disposal of assets; we do not believe the risk lies in those balances; but the risk is relevant to premises, transport, and supplies & services.
	Relevant account balances Cost of Services (Expenditure) Creditors
	How we addressed this risk We addressed this risk by: • Ensuring the accounting policies in relation to expenditure recognition and recognition of accruals are appropriate and consistently applied; • Testing year end creditors to confirm that they have been correctly valued and categorized and are correctly treated as a creditor of the authority; and • Carrying out cut-off testing, and testing for unrecorded liabilities, to confirm expenditure has been coded to the correct accounting year.
	Audit conclusion Our work to date has not identified any material errors in the financial statements

SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Revenue recognition	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. Having considered the factors for revenue recognition, we believe the risk is focused on the year-end balance sheet and in particular the existence and accuracy of receivables, specifically those that are material, subject to manual intervention and/or significant estimation. Due to the nature and/or value of income from interest and investment income, council tax, business rates and government grants we do not believe the risk lies in those balances, but the risk is relevant to fees, charges and other service income.
	Relevant account balances Cost of Services (income) Debtors
	How we addressed this risk We addressed this risk by: • Ensuring the accounting policies in relation to revenue recognition and recognition of accruals are appropriate and consistently applied; • Testing year end debtors to confirm that they have been correctly valued and categorized and are correctly treated as a debtor of the authority; and • Carrying out cut-off testing to confirm income has been coded to the correct accounting year.
	Audit conclusion Our work to date has not identified any material errors in the financial statements

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk Valuation of property, plant and equipment, investment properties and assets held for sale	**Description of the risk** The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.
	Relevant account balances Where relevant, Cost of Services (Expenditure) for any impairment charges Those items of Property, Plant and Equipment held at valuation being Other Land and Buildings and Surplus Assets as described in Note 14. Assets held for sale Investment Properties
	How we addressed this risk There has been no change in our planned audit strategy. We do however, wish to clarify our approach, which results in minor changes of how the tests performed are described versus our Audit Strategy Memorandum. We addressed this risk through performing the following audit work: • Reconciling valuations from the valuer's report had been recorded in the Fixed Asset Register; • Testing a sample of assets valued during the year to valuation reports; • Where material, testing the basis for impairment of assets, the value and correct accounting treatment; • Critically assessing the Council's valuer's scope of work and methodology used; and • Considering the impact of any assets not valued during the year In our Audit Strategy Memorandum we also said we would test a sample of capital expenditure in 2018/19 where material to confirm that the additions are appropriately valued in the financial statements. This work has been performed, with no issues arising. However, we wish to clarify that this testing was not to address this Significant Risk, it formed part of our standard risk audit procedures.
	Audit conclusion Our work is nearing completion, with some residual steps to complete. Our 2018/19 testing of land and buildings valuations identified a number of non-material issues. These issues included a misclassification of agricultural land as residential land, the omission of a school building and an inconsistent approach to the valuation of homes for older people. Management has addressed and corrected these matters for the 2018/19 financial statements. A further matter regarding indexation has been raised and we will provide an update to the Audit Committee on the day of the meeting.

Significant risk	Description of the risk
Valuation of net defined pension liability	The Council's accounts contain material liabilities relating to the Local Government Pension Scheme (LGPS). The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.

Relevant account balances

Net defined pension liability

How we addressed this risk

There has been no change in our planned audit strategy. We do however, wish to clarify our approach, which results in minor changes of how the tests performed are described versus our Audit Strategy Memorandum. We addressed this risk through performing the following audit work:

- Reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; and
- Agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

In addition, we

- Critically assessed the competency, objectivity and independence of the Derbyshire Pension Fund's Actuary, Hymans Robertson;
- Liaised with the auditors of the Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; and
- Performed a walkthrough of payroll transactions at the Council to understand how pension contributions which are deducted and paid to the Pension Fund by the Council (note, our Audit Strategy Memorandum implied we would perform detailed tests, which was an incorrect transposition from our Audit file).

Audit conclusion

The procedures we have undertaken to date have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention. Our audit work is however in progress and we will update the Audit Committee on any significant matters which affect our audit conclusion.

All local authorities have been affected by an accounting issue that impacts the value of pension liabilities. Two on-going legal cases (Guaranteed Minimum Pensions and McCloud/Sergeant) have created uncertainty over whether pension liabilities are fairly stated. The Council's actuary (via the Pension Fund) did not make an allowance in its actuarial valuation for either of these cases and early guidance given to councils was that the impact would not be material. The Council, as with nearly all local authorities in England, prepared the financial statements on this basis. In our view, these cases give rise to at least a constructive obligation, which is required to be recognised under IAS 19.

The Council received an updated IAS19 valuation report to take into account the implications of the GMP and McCloud judgments and changes to the Pension Fund's asset values at 31 March 2019. This resulted in differences from the original report used to prepare the draft financial statements and management have amended the financial statements for these differences.

2. SIGNIFICANT FINDINGS (CONTINUED)

Management judgement Minimum Revenue Provision (MRP)	**Description of the management judgement** Local authorities are normally required each year to set aside some of their revenues as provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is not prescribed although an overarching principle of prudency is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised is determining the level of its prudent provision.
	How our audit addressed this area of management judgement In relation to the Council's MRP we: • reviewed the Council's MRP policy to check that it had been developed with regard to the statutory guidance; • assessed whether the provision has been calculated and recorded in accordance with the Council's policy; • assessed whether the amount provided for the period was appropriate, taking into account the Council's Capital Financing Requirement; and • confirmed that any charge has been accounted for in accordance with the Code.
	Audit conclusion Our review of the Council's MRP policy indicated that the Council was intending to take account of a £10m overpayment in respect of previous years. The updated statutory guidance clarifies that changing the method used to calculate MRP can never give rise to an overpayment in respect of previous years, and should not result in a council making a reduced charge on the grounds that it needs to recover overpayments of MRP relating to previous years. The Council is updating its MRP policy to reflect this and has not taken account of overpayments in respect of previous years in preparing its accounts for 2018/19. Our work has provided the assurance we sought in relation to the Council's accounts for 2018/19.

2. SIGNIFICANT FINDINGS (CONTINUED)

Management judgement	
Accounting for the schools Private Finance Initiative and other school assets and liabilities	**Description of the management judgement** The Council's 2018/19 financial statements set out its accounting policies in relation to the schools Private Finance Initiative and other school assets and liabilities, and their inclusion on the balance sheet. These assets and liabilities are material and the accounting treatment is based on management judgement and interpretation of the relevant accounting standards.
	How our audit addressed this area of management judgement In relation to accounting for the schools Private Finance Initiative and other school assets and liabilities we: • reviewed the assessments carried out by management relating to the accounting treatment of these assets and liabilities and challenged the reasonableness of the judgments management has made; and • substantively tested these areas as part of our planned testing programmes.
	Audit conclusion Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded that following the amendments that have been agreed they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstance. The Council's policies have been updated appropriately to reflect the changes for 2018/19 in respect of IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers).

In recognition of the demands placed upon staff as a result of the earlier accounts production deadline, the Council has refined its closedown plan to enhance the project management of this complex process. This included providing working papers to aid the audit process, and officers engaging with the audit process in the period leading up to the year end in order to proactively address issues as they emerged.

Draft accounts were received from the Council on 31 May 2019 and were of a good quality. This represents a significant achievement by the finance team.

Opening Balances

We have performed relevant audit procedures on the Council's opening balances. We have no observations or matters to report relating to the opening financial position as at 1 April 2018.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant matters discussed with management

Minimum Revenue Provision (MRP)

Our review of the Council's MRP policy indicated that the Council was intending to take account of a £10m overpayment in respect of previous years. The updated statutory guidance clarifies in paragraph 29 that changing the method used to calculate MRP can never give rise to an overpayment in respect of previous years, and should not result in a council making a reduced charge on the grounds that it needs to recover overpayments of MRP relating to previous years. Management has acknowledged this issue and is updating the Council's MRP policy to reflect this and has not taken account of overpayments in respect of previous years in preparing its accounts for 2018/19.

Valuation of net defined benefit liability

In order to produce the IAS19 report for the accounts by mid April it was necessary for the actuary to use an estimate of the value of the Council's share of Derbyshire Pension Fund assets as at 31 March 2019. In previous years the estimate has been close to the actual valuation. However this year due to significant variations in asset valuations in the final quarter, the difference was greater and proved to be material at £31.662m less than originally estimated. Updated figures actuarial estimates were also required to take into account the impact of judgements made in relation to Guaranteed Minimum Pensions and the McCloud case.

Property valuations

The Code (para 4.1.2.38) permits assets to be valued on a rolling basis. Where assets are valued on a rolling basis there is a requirement that:

> Where assets are revalued (i.e. the carrying amount is based on current value), revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period (Code para 4.1.2.37).

As noted in our consideration of the property valuation significant risk, we used a report commissioned by the National Audit Office (NAO) to challenge the assumptions made in the valuation of assets. The NAO report was prepared by Gerald Eve and included details of movements in BCIS (Building Cost Information Service) All-in Tender Price Index indices. We used this report to challenge the judgement that there had not been a material movement in those assets valued at 1 April 2018, or not valued in the year as part of the Council's rolling asset valuations. We are discussing the impact with the Council and will update the Audit Committee of the outcome of our discussions.

3) Group Accounts

The Code of Practice on Local Authority Accounting, paragraph 9.1.1.7 states:

'Authorities with interests in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered not material.' The Council has assessed its subsidiaries, associates and joint ventures and considers them to be not material either qualitatively or quantitatively. We have considered management's judgement and are satisfied that the accounts are not materially misstated as a result of this judgement. In the coming years the Council will need to ensure it reviews this assessment and updates it for any significant changes.

4) New Waste Treatment Facility (NWTF)

The Council has considered whether the NWTF meets the definition of a service concession asset; this is an asset which a public sector entity, in this case the Council and Derby City Council, have control over, which is operated on their behalf by a private sector operator, in this case RRS. The asset has not been certified for full use and therefore the Council has not recognised its share of the assets and liabilities on the balance sheet at 31 March 2019. It is the Council's judgement that the whole unitary charge paid to RRS is, in substance, consideration for waste disposal services and this has been expensed to the CIES. We have reviewed management's judgement in this regard and are satisfied that the accounts are not materially misstated as a result of this judgement, although have recommend small changes to the description in the disclosure notes. For 2019/20 the Council will need to ensure it reviews this assessment to reflect changes in the assets operational effectiveness.

Significant matters discussed with management (continued)

5) Accounting for Loans under IFRS 9

The gain on the modification of loans (which has arisen on loans modified prior to 2006) had as a result of the application of IFRS 9 been taken to the CIES by the Council. However, this is a transition adjustment, which should instead have been accounted for in opening reserves rather than in the current year in the CIES. The Council is adjusting the final version of its financial statements by £29.224m to reflect the correct accounting treatment. It should be noted that this adjustment does not impact the Council's General Fund.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management and staff. We will meet with officers ahead of the 2019/20 audit to provide feedback on the detailed working papers and any improvement opportunities for other areas related to the accounts production and audit processes.

A challenging aspect of the audit related to the actuarial valuation of the Pension Liability that, as explained on page 10, impacted all local authorities and participants in a local government pension scheme. The Council prepared the draft financial statements based on guidance that had been issued at the time, however our view was that the actuarial valuations should have taken into account both the McCloud and GMP judgements. We raised our concerns at an early stage, however this is a complex area, required third party input, and within compressed reporting deadlines meant that the work performed presented some challenges for all parties.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2018/19 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We received one objection to the financial statements that we are in the process of considering.

Our draft audit report, in full, is set out in Appendix B.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	2018/19 issues identified	2017/18 issues outstanding
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	1	1
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	1	1
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	1	0

Significant deficiencies in internal control – Level 1

Controls in place in regard to the valuation process

Our 2018/19 testing of land and buildings valuations identified a number of issues, but did not identify any material errors. These issues included a misclassification of agricultural land as residential land, the omission of a school building and an inconsistent approach to the valuation of homes for older people. We do however acknowledge that management has taken steps to correct and address these matters together with the deficiencies identified in 2017/18 and has introduced a valuation manual to improve the accuracy and consistency of the valuation work undertaken.

Potential effects

Valuable assets are held by the Council. Inaccurate valuation or indexation can therefore result in large errors. This increases the risk of the Property, Plant and Equipment figure being materially misstated on the Council's Balance Sheet. For 2018/19 we did however obtain sufficient evidence to conclude the Property, Plant and Equipment figure for 2018/19 was materially correct.

Recommendation

The Council has taken steps to address the deficiencies identified in relation to the valuation of land and buildings, however it should now embed the processes set out in its valuation manual to ensure that valuation work is appropriately completed and checked on a timely basis to enable accurate entries to be made in the pre-audit statement of accounts.

Management response

Agreed. The valuation manual is a living document utilised by the asset valuation team to ensure effective valuation delivery. The team will focus on fully embedding the processes set out in the manual.

Responsible Officer: Sarah Morris

Other deficiencies in internal control – Level 2

Controls in place in regard to contracts of employment

During our payroll testing it became apparent that management could not locate the contracts of employment for 2 members of staff.

Potential effects

Contracts of employment are important documents that may be required to clarify terms and conditions of employment or to provide supporting information in relation to grievances or disputes. Not having access to such information could be prejudicial to the Council.

Recommendation

The Council should ensure that contracts of employment are held and are accessible in relation to all members of staff.

Management response

Management accept the recommendation and acknowledges the importance of contractual documentation. The two cases identified related to employees who work and are employed by Schools and therefore the Shared Services Centre do not hold the full employee file for the employee as this is the responsibility of the School to retain. Procedures for logging and sending paper documentation for employees within Schools who purchase the traded services package offsite will be reviewed in line with the HR retention schedule to ensure that an accurate record is maintained within the Shared Services Centre for all future documentation generated.

Other recommendations on internal control – Level 3

Controls in place in regard to the completeness of related party declarations

During our testing of related parties it was found that three councillors had not declared their membership of another public sector body.

Potential effects

Whilst there were no inherent conflicts of interest involved and it is acknowledged that this may simply have been an oversight, good practice encourages full disclosures to ensure transparency.

Recommendation

The Council should ensure that full disclosures are made and should emphasise the importance of full disclosures during the training sessions associated with the implementation of the Council's new constitution.

Management response

Agreed. The Council's new constitution came into effect on 15 May 2019 and the importance of full disclosures will form part of the training sessions associated with the new constitution.

Follow up of previous internal control points

We set out below an update on internal control points raised by KPMG in the prior year.

Controls in place in regard to the valuation process – Level 1

The 2017/18 testing of land and buildings valuations identified errors for certain of the assets tested, in particular there was a failure to correctly apply indexation in undertaking the 2017/18 valuation work. This issue resulted from an oversight in the preparation of the valuation working papers and was identified by internal audit work after the pre-audit statement of accounts had been issued.

Potential effects

Valuable assets are held by the Council. Inaccurate valuation or indexation can therefore result in large errors. This increases the risk of the Property, Plant and Equipment figure being materially misstated on the Council's Balance Sheet. For 2017/18 the deficiency detailed above resulted in an audit misstatement amounting to £132m which was corrected by the Council.

2018/19 update

Our 2018/19 testing of land and buildings valuations identified a number of errors, but did not identify any material errors. These errors included a misclassification of agricultural land as residential land, the omission of a school building and an inconsistent approach to the valuation of homes for older people. We do however acknowledge that management has taken steps to address the deficiencies identified and has introduced a valuation manual to improve the accuracy and consistency of the valuation work undertaken. We welcome this initiative. We obtained sufficient evidence to conclude the Property, Plant and Equipment figure for 2018/19 was materially correct.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow up of previous internal control points (cont'd)

Controls in place in relation to SAP users with privileged access– Level 2

The predecessor auditor's IT user access testing for 2017/18 identified that controls needed to be implemented to ensure: the activities of SAP users with privileged access could be monitored; appropriate segregation of duties was achieved; and access rights were withdrawn when individuals left the organisation.

Potential effects

Without such controls SAP users with privileged access are not monitored, can access live systems they have developed and are not deactivated in a timely manner when they leave, meaning that inappropriate access to business critical systems would be possible.

2018/19 update

Our 2018/19 testing noted that whilst the position had improved there was not a documented incident management policy which included user access issues in the organisation. We are therefore recommending that further work takes place to put such a policy in place. Management agrees with this recommendation and is currently undertaking work to put such a policy in place.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements discussed including those identified for adjustment during the course of the audit, above the level of our trivial threshold of £0.9 million.

Unadjusted misstatements

We have discussed with management an unadjusted misstatement that has been identified at the closing stage of our audit. This results from the Council's property being valued as at 1 April 2018. Indexation of the Council's property to values as at 31 March 2019 indicates an increase of £18,402,000. This amount is not material and the Council does not intend to adjust its 2018/19 financial statements to reflect this valuation issue. We will update the Audit Committee on the outcome of the discussions held regarding this matter.

Adjusted misstatements 2018/19

The table below outlines the misstatements that have been adjusted by management during the course of the audit.

		Before ((£'000)	After(£'000)
1	Balance Sheet - Net Pension Liability	824,567	870,547
	Comprehensive Income and Expenditure Statement – Cost of Services: Service Costs	92,799	106,927
	Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure: Net interest expense	17,559	17,748
	Total re-measurements recognised in Other Comprehensive Income and Expenditure	135,007	166,670
	Updated figures as a result of revised actuarial valuations taking into account the year-end value of assets in the Derbyshire Pension Fund and assumptions for GMP and the McCloud judgement. As this involves a large number of accounting entries, we have only set out the changes in the largest figures. There are also additional consequential changes to the Pension Fund note, but none of these items significantly impact the Council's General Fund.		

		Comprehensive Income and Expenditure Statement and MIRS		Balance Sheet	
		Debit	Credit	Debit	Credit
		£'000	£'000	£'000	£'000
2	Financing & Investment income and expenditure: loan modification gains	29.224			0
	Movement in Reserves Statement		29,224		
	Being the adjustment to recognise loan transition adjustments arising from the application of IFRS 9, which should have been accounted for in opening reserves rather than in the current year CIES under short term investments				

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Disclosure amendments

During our review of the financial statements we identified the following significant amendments to disclosures. These disclosure issues were corrected by the Council in the final version of its financial statements for 2018/19.

1 During our review of the Movement in Reserves Statement and the associated notes to the financial statements (Notes 15 and 31) we identified an inconsistency in relation to the value of transfers to earmarked reserves. In order to address this issue management has made corrections in the final version of its financial statements for 2018/19 to ensure consistency in relation to this information.

2 During our review of the notes to the financial statements (Note 48) it became apparent that the Council had not included land amounting to £1m in its operating lease costs. This does not affect the main financial statements, but is incorrect. In order to address this issue management has made a correction in the final version of its financial statements for 2018/19.

3 The Council identified that it had incorrectly classified its Revenue Support Grant as departmental and not corporate income in Note 41 on grant income. This does not affect the main financial statements, but is incorrect. In order to address this issue management has made a correction in the final version of its financial statements for 2018/19.

4 The Council identified that it had omitted text from the face of the Comprehensive Income and Expenditure Statement to clarify that certain items will not be reclassified to the surplus or deficit on the provision of services. Management has corrected this in the final version of its financial statements for 2018/19.

5 We reviewed the proposed disclosures in detail and fed back to management on a number of detailed issues which required amendments to be made for the final version of the financial statements. These issues included the accounting treatment of financial instruments that are held at Fair Value through Other Comprehensive Income (FVOCI). Certain financial instruments like the CCLA Property Fund do not meet the definition of equity in IAS 32 and do not qualify for the election to hold at FVOCI. In order to address this and the other detailed disclosure issues considered management has made corrections in the final version of its financial statements for 2018/19 to ensure the correct disclosures are made.

During our review of the financial statements we also identified some minor amendments to disclosures. These disclosure issues will be corrected by the Council in the final version of its financial statements for 2018/19.

5. VALUE FOR MONEY CONCLUSION

Introduction

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our Approach

Our overall approach is set out in our Audit Strategy Memorandum and involves a detailed risk assessment at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As set out in our Audit Strategy Memorandum, for the 2018/19 financial year, we have not identified any significant risks to our VFM conclusion. We have though identified one specific matter which we needed to keep to under close review:

- Financial Sustainability

Our detailed findings are set out below. Based on the work performed, we are satisfied that the Council's arrangements are adequate.

Risk	Work undertaken	Conclusion
Financial sustainability –The Council continues to face financial pressure in the coming years and the Council keeps updating its medium term financial plan (MTFP) to meet these pressures. We needed to ensure our knowledge of the Council's MTFP arrangements and its monitoring of the planned delivery of savings, remained up to date in order to ensure we gave the correct VFM conclusion.	We have assessed whether any matters have come to our attention through the course of our audit that lead us to conclude that a risk to our 2018/19 VFM conclusion does indeed exist. The Council underspent against s final net budget of £488.1m by £13.1m and this amount was put into the General Reserve to support the Council's future financial resilience. We confirmed the Council set a balanced budget for 2019/20 and at the same time updated the MTFP. The financial position post 2020/21 holds some uncertainties, which is a common issue for all bodies in the local government sector. Further work is required to identify specific a full suite of savings plans for 2020/21 and beyond and the outcome of the Fair Funding review will help inform the Council's plans.	We obtained sufficient assurance to conclude that the Council continues to have appropriate arrangements in place.

Matters kept under review

Before drawing our conclusion, we have:

- updated our risk assessment for any new or emerging issues through discussions with management and updating our review of committee reports;
- reviewed the Council's Annual Governance Statement for any significant issues; and
- considered the Council's financial outturn position as presented in the financial statements.

From the work performed, no new significant VFM risks were identified and we have no matters to report.

Our overall Value for Money conclusion

We have completed our procedures and, as set out in our draft auditor's report included at Appendix B, we intend to issue an unqualified Value for Money conclusion for the 2018/19 financial year.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

Mazars LLP
Park View House
58 The Ropewalk
Nottingham
NG1 5DW

The Council's management representation letter should be provided to us on client headed note paper.

23 July 2019

Dear Mark

Derbyshire County Council - audit for year ended 31 March 2019
This representation letter is provided in connection with your audit of the statement of accounts for Derbyshire County Council (the Council) for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information
I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information
I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance & ICT that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records
I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Accounting policies
I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value
I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

Contingencies
There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date. There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

Laws and regulations
I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error
I acknowledge my responsibility as Director of Finance & ICT for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:
- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions
I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review
To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments
I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Service Concession Arrangements
I am not aware of any material contract variations, payment deductions or additional service charges in 2018/19 in relation to the Council's PFI schemes that you have not been made aware of.

Subsequent events
I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern
To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements
I confirm that the effects of the uncorrected misstatements as included in the auditor's Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Yours sincerely

Director of Finance & ICT
23 July 2019

DRAFT AUDITOR'S REPORT

Independent auditor's report to the members of Derbyshire County Council – DRAFT
Report on the financial statements

Opinion

We have audited the financial statements of Derbyshire County Council for the year ended 31 March 2019, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Derbyshire County Council as at 31st March 2019 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance & ICT's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance & ICT has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance & ICT is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Finance & ICT for the financial statements

As explained more fully in the Statement of the Director of Finance & ICT's Responsibilities, the Director of Finance & ICT is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Director of Finance & ICT is also responsible for such internal control as the Director of Finance & ICT determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance & ICT is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Director of Finance & ICT is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on Derbyshire County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Derbyshire County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

This report is made solely to the members of Derbyshire County Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Mark Surridge
For and on behalf of Mazars LLP

Park View House
58 The Ropewalk
Nottingham
NG1 5DW

26 July 2019

APPENDIX C
INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

CONTACT

Mark Surridge
Director

Phone: +44 (0) 787 597 4291
Email: mark.surridge@mazars.co.uk

John Pressley
Manager

Phone: +44 (0)790 998 0880
Email: john.pressley@mazars.co.uk

Audit Completion Report

Derbyshire Pension Fund

Year ended 31 March 2019

Derbyshire Pension Fund

MAZARS

CONTENTS

MAZARS

Mazars LLP
Park View House
58 The Ropewalk
Nottingham
NG1 5DW

Audit Committee
Derbyshire County Council
County Hall
Matlock
DE4 3AG

23 July 2019

Dear Members

Audit Completion Report – Year ended 31 March 2019

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 27 March 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07387 242 052.

Yours faithfully

Lucy Nutley
Mazars LLP

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of the Derbyshire Pension Fund for the year ended 31 March 2019, and forms the basis for discussion at the Audit Committee meeting on 23 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement..

Sections 2 of this report outlines the detailed findings from our work on the financial statements. As we outline on the following page, our work is substantially complete and, subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Consistency Report

We anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of the Council. Our draft consistency report is provided in Appendix C.

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Pension Fund and to consider any objection made to the accounts.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report.

1. EXECUTIVE SUMMARY (CONTINUED)

Status of our audit work

We have substantially completed our work on the financial statements for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Description of outstanding matters
Consistency opinion	We have not yet received the final version of the Pension Fund Annual Report and have not therefore not concluded our work comparing the Pension Fund financial statements within the Statement of Accounts of the Council with the Pension Fund financial statements within the Pension Fund Annual Report.
Closure procedures and review	We will complete our standard closure procedures, including our final review of the financial statements and consideration of post balance sheet events.

We will provide the Audit Committee with an update in relation to these outstanding matters, prior to signing the audit certificate.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set overall materiality at the planning stage of the audit at £46m using a benchmark of 1% of net assets available to pay benefits. Our final assessment of overall materiality, based on the final financial statements is £49m using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee) at £1.4m based on 3% of overall materiality. Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Pension Fund's financial statements. We have therefore set our performance materiality at 65% of our overall materiality being £32m.

.

2. FINANCIAL STATEMEMENTS AUDIT

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Pension Funds financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk by performing audit work in the following areas: • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion Our work has provided us with the assurance we sought and has not highlighted any material issues to bring to your attention.

2. FINANCIAL STATEMEMENTS AUDIT (CONTINUED)

Significant risk	Description of the risk
Valuation of unquoted investments for which a market price is not readily available	As at 31 March 2018 the fair value of investments which were not quoted on an active market was £634m (£844m as at 31 March 2019), which accounted for 14% (17% as at 31 March 2019) of the Fund's net investment assets. Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end. As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.
	How we addressed this risk In addition to our standard programme of work in this area we have: • agreed the valuations to supporting documentation including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuations; • agreed the investment manager valuations to audited accounts. Where these were not available, we agreed the investment manager valuation to other independent supporting documentation; • where audited accounts were available, we checked that they were supported by a clear opinion; and • where available, we reviewed any independent control assurance reports and confirmed that they do not highlight any risks of material misstatement.
	Audit conclusion Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. We have not identified any such judgements. It is however worth noting that Note 5 to the accounts regarding Britain leaving the European Union outlines that there remains a high level of uncertainty around the impact of the implementation of the 2016 Brexit referendum result.

2. FINANCIAL STATEMEMENTS AUDIT (CONTINUED)

Opening Balances

We have performed relevant audit procedures on the Pension Fund's opening balances. We have no observations or matters to report relating to the opening financial position as at 1 April 2018.

Qualitative aspects of the entity's accounting practices

We have reviewed the Pension Fund's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Pension Fund's circumstances.

Draft accounts were received from the Pension Fund on 31 May 2019 and were of a good quality.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2018/19 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have not received any questions or objections that relate to the financial statements of the Derbyshire Pension Fund.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	2018/19 issues identified	2017/18 issues outstanding
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	1	1
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0	1

Other deficiencies in internal control – Level 2

Controls in place in regard to pensions payroll to general ledger reconciliations – Level 2

The SAP payroll and general ledger provide an integrated system. However achieving a reconciliation between the payroll and ledger entries took more management and audit time than anticipated this year and emphasised the value of having regular reconciliations in place between the information in the pensions payroll reports and the SAP general ledger to avoid such problems for the future.

Potential effects

Whilst the absence of this reconciliation does not indicate that an error has occurred this reconciliation is an important check that the general ledger information populated from pensions payroll is complete and accurate.

Recommendation

Whilst acknowledging that management has taken steps to address this issue for 2018/19 we recommend that pensions payroll to general ledger reconciliations are undertaken, reviewed and authorised on an ongoing basis.

Management response

Agreed. The Council will review, develop and implement a reconciliation process during 2019/20.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow up of previous internal control points

We set out below and overleaf an update on internal control points raised by KPMG in the prior year.

Controls in place in relation to SAP users with privileged access – Level 2 for 2017/18

KPMG's IT user access testing for 2017/18 identified that controls needed to be implemented to ensure: the activities of SAP users with privileged access could be monitored; appropriate segregation of duties was achieved; and access rights were withdrawn when individuals left the organisation.

Potential effects

Without such controls SAP users with privileged access are not monitored, can access live systems they have developed and are not deactivated in a timely manner when they leave, meaning that inappropriate access to business critical systems would be possible.

2018/19 update – Level 3 for 2018/19

Our 2018/19 testing noted that whilst the position had improved there was not a documented incident management policy which included user access issues in the organisation. We are therefore recommending that further work takes place to put such a policy in place.

Management response

Agreed. A policy will be developed, agreed and implemented.

Other recommendations on internal control – Level 3

Controls in place in regard to the Pensions Administration System – Level 3

KPMG's work for 2017/18 identified that work was required to ensure all pension records were readily available and complete to facilitate the efficient operation of the Pensions Administration System. This was to be taken forward with a new pensions administration system.

Potential effects

It is important that pension records are complete, accurate and readily accessible to ensure that pension calculations can be undertaken correctly and efficiently. The Pensions Administration System is key to ensuring that this is the case.

2018/19 update

The new Altair Pensions Administration System successfully went live on 4 March 2019. As with many major new systems, there have been a number of initial issues for the Pension Fund Team and the supplier to work through. Whilst good progress has been made further work is required to fully embed the operation of the new Altair Pensions Administration System. We recommend the Pension Fund continue to progress this matter with the supplier and report to the Audit Committee on this issue.

Management response

Discussions are ongoing with the supplier of the new pension administration system regarding the resolution of a diminishing number of outstanding implementation issues. An update report will be taken to the Audit Committee in December 2019.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £1.4m. Management has agreed to amend the financial statements to address the one issue identified. There are no unadjusted misstatements for 2018/19.

Adjusted misstatements 2018/19

		Fund Account		Notes to the Net Assets Statement	
		Dr (£m)	Cr (£m)	Dr (£m)	Cr (£m)
1	Dr: Pooled Investment Vehicles – Other Unquoted			67.459	
	Cr: Pooled Investment Vehicles – Other Quoted				67.459
	Our 2018/19 testing of investments identified the misclassification of a material asset (LGIM World Emerging Markets Index Fund) which was incorrectly classified within Pooled Investment Vehicles - Other Quoted as a Level 2 asset. The correct classification is Pooled Investment Vehicles - Other Unquoted as a Level 3 asset. The client has corrected this classification issue by processing a journal to correct the trial balance and correcting the associated disclosure in the 2018/19 financial statements.				

Disclosure requirements not met

A sensitivity analysis for Level 3 investments is required to be disclosed in the accounts by paragraph 2.10.4.1 (3) (d) (e) & (h) of the Code. The Derbyshire Pension Fund has indicated that is not able to provide this disclosure involving fair value information for 2018/19 within the time available, but will provide such a disclosure for 2019/20 and future years.

Disclosure amendments

The following disclosure amendments were made:

Note 1, Basis of preparation: This note has been updated to provide a fuller description on the recognition and measurement of transactions.

Note 2, Accounting Policies – Investment Income: This policy has been updated to indicate that the pension fund accounts have been prepared on a going concern basis.

General: A number of other detailed disclosure changes have been made to the financial statements and notes not requiring individual analysis.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

Mazars LLP
Park View House
58 The Ropewalk
Nottingham
NG1 5DW

The Council's management representation letter should be provided to us on client headed note paper.

23 July 2019

Dear Lucy

Derbyshire Pension Fund - audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the financial statements of the Derbyshire Pension Fund ('the Pension Fund') for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Pension Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance & ICT that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material affect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Pension Fund and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Pension Fund's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Pension Fund in making accounting estimates, including those measured at fair value, are reasonable.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date. There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom. The Pension Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Director of Finance & ICT for the design, implementation and maintenance of internal control to prevent and detect fraud and error. I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Pension Fund involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Pension Fund's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Pension Fund's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Specific representation on unquoted investments

Unquoted investments are included in the net assets statement at the value estimated by the general partner managing each fund in accordance with the guidelines used by the industry, and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, with the valuations, and am not aware of any subsequent events that would have a material impact on the estimated value of the unquoted investments.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements as included in the auditor's Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Pension Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Yours sincerely

Director of Finance & ICT
23 July 2019

Independent auditor's report to Members of Derbyshire County Council

Opinion on the Pension Fund financial statements

We have audited the financial statements of Derbyshire Pension Fund for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes, including the summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance & ICT's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance & ICT has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance & ICT is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Finance & ICT for the financial statements

As explained more fully in the Statement of the Director of Finance & ICT's Responsibilities, the Director of Finance & ICT is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Director of Finance & ICT is also responsible for such internal control as the Director of Finance & ICT determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance & ICT is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Director of Finance & ICT is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of Derbyshire County Council, as a body and as administering authority for the Derbyshire Pension Fund, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Lucy Nutley
For and on behalf of Mazars LLP

Park View House
58 The Ropewalk
Nottingham
NG1 5DW

26 July 2019

APPENDIX C
DRAFT CONSISTENCY REPORT

Independent Auditor's Statement to the Members of Derbyshire County Council on the Pension Fund Financial Statements included within Derbyshire Pension Fund Annual Report

We have examined the Pension Fund financial statements for the year ended 31 March 2019 included within the Derbyshire Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the related notes.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of Derbyshire County Council for the year ended 31 March 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Respective responsibilities of the Director of Finance & ICT and the auditor

As explained more fully in the Statement of the Director of Finance & ICT's Responsibilities, the Director of Finance & ICT is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of Derbyshire County Council as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of Derbyshire County Council.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of Derbyshire County Council describes the basis of our opinions on the financial statements.

Use of this auditor's statement

This report is made solely to the members of Derbyshire County Council, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of Derbyshire County Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Derbyshire County Council and Derbyshire County Council's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Lucy Nutley
For and on behalf of Mazars LLP

Park View House,
58 The Ropewalk
Nottingham
NG1 5DW

Date to be confirmed

APPENDIX D
INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

CONTACT

Lucy Nutley
Director

Phone: +44 (0)738 724 2052
Email: lucy.nutley@mazars.co.uk

John Pressley
Manager

Phone: +44 (0)790 998 0880
Email: john.pressley@mazars.co.uk

MAZARS

Annual Audit Letter

Derbyshire County Council

Year ended 31 March 2019

MAZARS

CONTENTS

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Derbyshire County Council for the year ended 31 March 2019. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 31 July 2019 included our opinion that the financial statements: • give a true and fair view of the Council's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
Other information published alongside the audited financial statements	Our auditor's report issued on 31 July 2019 included our opinion that: • the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 23 August 2019 we reported to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts return.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council. We received a question from a local elector that we agreed to treat as a formal objection. Our consideration of the matters raised by the elector took place in August 2018, with a planned conclusion date of 28 September. We are unable to issue the Audit Certificate until at least that date.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	**Unqualified**

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Council on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure at a Surplus/Deficit on Provision of Services level	£31.169m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.935m
Specific materiality	We applied a lower level of materiality to the following areas of the accounts: • Officers' Remuneration • Termination Payments • Members' Allowances • Audit Fee	 £5,000 per individual officer £374,000 £215,000 £23,000

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Our response to significant risks

As part of our continuous planning procedures, we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee in our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	We addressed this risk by performing audit work in the following areas: • documenting our understanding of the processes and controls in place to mitigate the risks identified; • testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • evaluating the business rationale for any significant transactions outside the course of the business; • understanding the oversight given by those charged with governance of management process over fraud; • making enquiries of management and Internal Audit regarding actual or any suspicions of fraud; and • considering whether the Council's accounting policies are consistent with industry standards.	There were no matters arising from our work on management override of controls.
Expenditure recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council (FRC), which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular the completeness and valuation of manually accrued payables. Due to the nature and/or value of expenditure on employee expenses, interest payments, depreciation, impairments and loss on disposal of assets; we do not believe the risk lies in those balances; but the risk is relevant to premises, transport, and supplies & services.	We addressed this risk by: • ensuring the accounting policies in relation to expenditure recognition and recognition of accruals were appropriate and consistently applied; • testing year end creditors to confirm that they had been correctly valued and categorized and were correctly treated as a creditor of the authority; and • carrying out cut-off testing, and testing for unrecorded liabilities, to confirm expenditure had been coded to the correct accounting year.	Our work has not identified any material errors in the financial statements.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Identified significant risk	Our response	Our findings and conclusions
Revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. Having considered the factors for revenue recognition, we believe the risk is focused on the year-end balance sheet and in particular the existence and accuracy of receivables, specifically those that are material, subject to manual intervention and/or significant estimation. Due to the nature and/or value of income from interest and investment income, council tax, business rates and government grants we do not believe the risk lies in those balances, but the risk is relevant to fees, charges and other service income.	We addressed this risk by: • ensuring the accounting policies in relation to revenue recognition and recognition of accruals are appropriate and consistently applied; • testing year end debtors to confirm that they have been correctly valued and categorized and are correctly treated as a debtor of the authority; and • carrying out cut-off testing to confirm income has been coded to the correct accounting year.	Our work has not identified any material errors in the financial statements.
Valuation of property, plant and equipment The Council's accounts contain material balances relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to the high degree of estimation uncertainty associated with those held at valuation, we determined there was a significant audit risk in this area.	We addressed this risk through: • reconciling valuations from the valuer's report to those recorded in the Fixed Asset Register; • testing a sample of assets valued during the year to valuation reports; • where material, testing the basis for impairment of assets, the value and correct accounting treatment; • critically assessing the Council's valuer's scope of work and methodology used; and • considering the impact of any assets not valued during the year.	The procedures we have undertaken have not identified any material errors or uncertainties in the financial statements.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Identified significant risk	Our response	Our findings and conclusions
Defined benefit liability valuation The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we determined there was a significant risk in this area.	We addressed this risk through: • reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by the consulting actuary engaged by the National Audit Office; • agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements; • critically assessing the competency, objectivity and independence of the Derbyshire Pension Fund's Actuary, Hymans Robertson; • liaising with the auditors of the Derbyshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; and • performing a walkthrough of payroll transactions at the Council to understand how pension contributions which are deducted and paid to the Pension Fund by the Council.	Our work provided the assurance sought and we were satisfied the local government pensions liability was not materially misstated.

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Description of deficiency	**Controls in place in regard to the valuation process -** Our 2018/19 testing of land and buildings valuations identified a number of issues, but did not identify any material errors. These issues included a misclassification of agricultural land as residential land, the omission of a school building and an inconsistent approach to the valuation of homes for older people. We do however acknowledge that management has taken steps to correct and address these matters together with the deficiencies identified in 2017/18 and has introduced a valuation manual to improve the accuracy and consistency of the valuation work undertaken.
Potential effects	Valuable assets are held by the Council. Inaccurate valuation or indexation can therefore result in large errors. This increases the risk of the Property, Plant and Equipment figure being materially misstated on the Council's Balance Sheet. For 2018/19 we did however obtain sufficient evidence to conclude the Property, Plant and Equipment figure for 2018/19 was materially correct.
Recommendation	The Council has taken steps to address the deficiencies identified in relation to the valuation of land and buildings, however it should now embed the processes set out in its valuation manual to ensure that valuation work is appropriately completed and checked on a timely basis to enable accurate entries to be made in the pre-audit statement of accounts.
Management response	Agreed. The valuation manual is a living document utilised by the asset valuation team to ensure effective valuation delivery. The team will focus on fully embedding the processes set out in the manual.

Description of deficiency	**Controls in place in regard to contracts of employment -** During our payroll testing it became apparent that management could not locate the contracts of employment for 2 members of staff.
Potential effects	Contracts of employment are important documents that may be required to clarify terms and conditions of employment or to provide supporting information in relation to grievances or disputes. Not having access to such information could be prejudicial to the Council.
Recommendation	The Council should ensure that contracts of employment are held and are accessible in relation to all members of staff.
Management response	Management accept the recommendation and acknowledges the importance of contractual documentation. The two cases identified related to employees who work and are employed by Schools and therefore the Shared Services Centre do not hold the full employee file for the employee as this is the responsibility of the School to retain. Procedures for logging and sending paper documentation for employees within Schools who purchase the traded services package offsite will be reviewed in line with the HR retention schedule to ensure that an accurate record is maintained within the Shared Services Centre for all future documentation generated.

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations (continued)

Description of deficiency	**Controls in place in regard to the completeness of related party declarations -** During our testing of related parties it was found that three councillors had not declared their membership of another public sector body.
Potential effects	Whilst there were no inherent conflicts of interest involved and it is acknowledged that this may simply have been an oversight, good practice encourages full disclosures to ensure transparency.
Recommendation	The Council should ensure that full disclosures are made and should emphasise the importance of full disclosures during the training sessions associated with the implementation of the Council's new constitution.
Management response	Agreed. The Council's new constitution came into effect on 15 May 2019 and the importance of full disclosures will form part of the training sessions associated with the new constitution.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion	Unqualified

Our approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people'. To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and other third parties.

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Completion Report, we reported that we had not identified any significant risks to our VFM conclusion. We did though identify one specific matter which we needed to keep to under close review: The work we completed in relation to this matter is outlined below, which supported our auditor's report, issued to the Council on 31 July 2019, that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019.

Significant Value for Money risk

Risk	Work undertaken	Conclusion
Financial sustainability – The Council continues to face financial pressure in the coming years and the Council keeps updating its medium term financial plan (MTFP) to meet these pressures. We needed to ensure our knowledge of the Council's MTFP arrangements and its monitoring of the planned delivery of savings, remained up to date in order to ensure we gave the correct VFM conclusion.	We have assessed whether any matters have come to our attention through the course of our audit that lead us to conclude that a risk to our 2018/19 VFM conclusion does indeed exist. We addressed this requirement by reviewing the Council's arrangements for developing and delivering its MTFP and for working in partnership.	We obtained sufficient assurance to conclude that the Council continues to have appropriate arrangements in place.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Completion of group audit reporting requirements	**Consistent**
Other information published alongside the audited financial statements	**Consistent**

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We received one such objection or question and have undertaken work to ensure that the matters involved do not have a material impact in relation to our opinion on the financial statements or VFM conclusion.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 23 August 2019.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in March 2019.

We have completed our work for the 2018/19 financial year, but at the time of producing this report, we have not yet finalised our audit fees for the year. We carried out additional audit work to address the risk of material misstatement on the Council's pension liability, arising from the actuarial impact of GMP and McCloud, resulting in an additional fee of £750. In addition, we have proposed an additional fee of £3,500 for the work undertaken in relation to an objection we received from a local elector. These fee variations require the approval of Public Sector Audit Appointments Limited, before finalising the audit fee.

Area of work	2018/19 proposed fee	2018/19 final fee ***
Delivery of audit work under the NAO Code of Audit Practice	£96,524 plus VAT	£100,774 plus VAT

*** Please note that at the time of producing this report, the audit fee has not yet been finalised.

Fees for non-PSAA work

At the present time we have not been separately engaged by the Council to carry out additional work outside of the fees in relation to our appointment by PSAA. Before agreeing to any non-PSAA work we will confirm there were no actual, potential or perceived threats to our independence.

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (https://www.nao.org.uk/code-audit-practice/about-code/).

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Resilience

Fair Funding Review

The Council will need to incorporate the outcome of the Spending Review, due in the latter half of 2019, to its Medium Term Financial Plan. The Spending Review will set out the department allocations for 2020/21 and potentially beyond. Regardless of the timing and period covered by the Spending Review, the Council recognises the key issue is the management of general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. It must, therefore, ensure it clarifies and quantifies how it will bridge the funding gap through planned expenditure reductions and/ or income generation schemes.

Local Authority Financial Resilience Index

CIPFA is moving forward with its financial resilience index, which it believes will be a barometer on which local authorities will be judged. We would expect the Council to have at least considered the index once it is formally released.

Commercialisation

The National Audit Office will be publishing a report on Commercialisation during 2019. Depending on the Council's appetite for Commercialisation, we would expect the Council to consider the outcome of the report and ensure any lessons learnt are incorporated into business practice.

Further, the UK Debt Management Office's Annual Report, published on 23 July 2019, reported that, as at 31 March 2019, the Public Works Loan Board's loan book was £78.3 billion with 1,308 new loans totalling £9.1 billion advanced during the year. As a result, we expect local authorities to clearly demonstrate:

- the value for money in the use of Public Works Loan Board funds to acquire commercial property; and
- the arrangements for loan repayment through the updated Statutory Guidance on Minimum Revenue Provision in 2019/20, 2020/21 and beyond.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Lease accounting

The implementation of IFRS 16 Leases in the Code is delayed until 1 April 2020. The Council will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

6. FORWARD LOOK (CONTINUED)

Next year's audit and how we will work with the Council

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to support the Council by:

- continued liaison with the Council's Internal Auditors to minimise duplication of work;
- attending Audit Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet with the Council to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

The Council has taken a positive and constructive approach to our audit and we wish to thank Members and officers for their support and co-operation during our audit.

CONTACT

Mark Surridge
Director

Phone: +44 (0) 787 597 4291
Email: mark.surridge@mazars.co.uk

John Pressley
Manager

Phone: +44 (0) 790 998 0880
Email: john.pressley@mazars.co.uk

Annual Audit Letter

Derbyshire Pension Fund

Year ended 31 March 2019

Derbyshire Pension Fund

MAZARS

CONTENTS

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Derbyshire Pension Fund for the year ended 31 March 2019. Although this letter is addressed to the members of Derbyshire County Council, as a body and as administering authority for the Derbyshire Pension Fund, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 31 July 2019 included our opinion that the financial statements: • give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
Other information published alongside the audited financial statements	Our auditor's report issued on 31 July 2019 included our opinion that: • the other information in the Statement of Accounts is consistent with the audited financial statements.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Pension Fund.
Consistency Report	We have yet to issue our consistency report setting out that in our opinion the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of the Council. We will issue our audit certificate once this work is completed.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	**Unqualified**

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Pension Fund and whether they give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Pension Fund's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

We set overall materiality at the planning stage of the audit at £46m using a benchmark of 1% of net assets available to pay benefits. Our final assessment of overall materiality, based on the final financial statements is £49m using the same benchmark.

We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee) at £1.4m based on 3% of overall materiality.

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Pension Fund's financial statements. We have therefore set our performance materiality at 65% of our overall materiality being £32m.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 1% of net assets available to pay benefits	£49m
Performance materiality	Our performance materiality is based on 65% of our financial statement materiality	£32m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£1.4m

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Our response to significant risks

As part of our continuous planning procedures, we considered whether there were risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee in our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	We addressed this risk by performing audit work in the following areas: • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	There were no matters arising from our work on potential areas of management override of controls.
Valuation of unquoted investments for which a market price is not readily available As at 31 March 2018 the fair value of investments which were not quoted on an active market was £634m (£844m as at 31 March 2019), which accounted for 14% (17% as at 31 March 2019) of the Fund's net investment assets. Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end. As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore considered that there was an increased risk of material misstatement.	In addition to our standard programme of work in this area we have: • agreed the valuations to supporting documentation including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuations; • agreed the investment manager valuations to audited accounts. Where these were not available, we agreed the investment manager valuation to other independent supporting documentation; • where audited accounts were available, we checked that they were supported by a clear opinion; and • where available, we reviewed any independent control assurance reports and confirmed that they do not highlight any risks of material misstatement.	Our work has provided the assurance we sought and has not highlighted any material errors or uncertainties in the financial statements.

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendation

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiency in internal control as part of our audit.

Description of deficiency	**Controls in place in regard to pensions payroll to general ledger reconciliations** The SAP payroll and general ledger provide an integrated system. However achieving a reconciliation between the payroll and ledger entries took more management and audit time than anticipated this year and emphasised the value of having regular reconciliations in place between the information in the pensions payroll reports and the SAP general ledger to avoid such problems for the future.
Potential effects	Whilst the absence of this reconciliation does not indicate that an error has occurred this reconciliation is an important check that the general ledger information populated from pensions payroll is complete and accurate.
Recommendation	Whilst acknowledging that management has taken steps to address this issue for 2018/19 we recommend that pensions payroll to general ledger reconciliations are undertaken, reviewed and authorised on an ongoing basis.
Management response	Agreed. The Pension Fund will review, develop and implement a reconciliation process during 2019/20.

We also followed up on the internal control recommendations raised by KPMG in relation to 2017/18 and re-raised any outstanding actions required.

3. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Consistency Report - the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of the Council	**We have yet to issue our consistency report. We will issue our audit certificate once this work is completed.**
Other information published alongside the audited financial statements	**Consistent**

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Pension Fund's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have not received any questions or objections that relate to the financial statements of the Derbyshire Pension Fund.

Consistency Report

We are required to provide a Consistency Report setting out whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of Derbyshire County Council. We will issue our Consistency Report once this work has been completed including our opinion that the Pension Fund financial statements are consistent with the audited financial statements of Derbyshire County Council for the year ended 31 March 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. We will issue our audit certificate once this work is completed.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Pension Fund. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

4. OUR FEES

Fees for work as the Pension Fund's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in March 2019.

We have completed our work for the 2018/19 financial year, but at the time of producing this report, we have not yet finalised our audit fees for the year. If the final fee varies from that in the table below, we will write to the Director of Finance & ICT setting out the proposed variation and any reasons for the variation, and seeking agreement to it. Any variations to the final fee will also require the approval of Public Sector Audit Appointments Limited, which manages the contracts for our work.

Area of work	2018/19 proposed fee	2018/19 final fee ***
Delivery of audit work under the NAO Code of Audit Practice	£22,077 plus VAT	£22,077 plus VAT

*** Please note the final fee does not include the £16,800 detailed below which is the total chargeable by the Pension Fund to fourteen participating employers for assurances given to their auditors and that at the time of producing this report, the audit fee has not yet been finalised.

Fees for other work

In response to requests received we have reported the results of the performance of our work programme at Derbyshire Pension Fund to the auditors of fourteen participating employers. The fee for this IAS 19 assurance work is £1,200 per employer. We are satisfied this IAS 19 assurance work does not impact our independence or objectivity in relation to the audit of the Pension Fund.

In previous years we have not charged employers or their auditors for this work where the employer was within the PSAA regime and have charged employer auditors where the employer was outside of the PSAA regime. As the number of these requests is increasing year on year, from 2018/19 Mazars is charging all employers for IAS19 assurance work. The PSAA has clarified that fees for all such work, regardless of whether the employer is within the PSAA regime, will be an audit fee variation, which means that the fees for the IAS19 assurance work will be billed to the Pension Fund; the expectation is that the Fund will seek to recover the costs of this work from relevant employers.

At the present time we have not been separately engaged by the Pension Fund to carry out any other additional work outside of the fees in relation to our appointment by PSAA. Before agreeing to any other non-PSAA work we will confirm there were no actual, potential or perceived threats to our independence.

5. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (https://www.nao.org.uk/code-audit-practice/about-code/).

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Next year's audit and how we will work with the Pension Fund

We will focus our work on the risks that your challenges present to your financial statements.

In the coming year we will continue to support the Pension Fund by:

- continued liaison with Internal Audit to minimise duplication of work;
- attending Audit Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet with management to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

The Pension Fund has taken a positive and constructive approach to our audit and we wish to thank Members and officers for their support and co-operation during our audit.

CONTACT

Lucy Nutley
Director

Phone: +44 (0) 738 724 2052
Email: lucy.nutley@mazars.co.uk

John Pressley
Manager

Phone: +44 (0) 790 998 0880
Email: john.pressley@mazars.co.uk

MAZARS

This page is intentionally left blank

Agenda Item No

DERBYSHIRE COUNTY COUNCIL

COUNCIL

9 October 2019

Report of the Director of Finance & ICT

BUDGET MONITORING 2019-20 (as at 30 June 2019)

1 Purpose of the Report

To provide Council with the Revenue Budget position for 2018-19 as at 30 June 2019.

2 Information and Analysis

The report summarises the controllable budget position by Cabinet Member Portfolio as at 30 June 2019. Further reports will be considered at Audit Committee and Cabinet in accordance with the Budget Monitoring Policy and Financial Regulations.

The projected outturn compared to controllable budget is summarised below. This includes the use of one-off funding to support the Highways, Transport and Infrastructure portfolio.

	Budget	**Forecast Actuals**	**Projected Outturn**
	£m	**£m**	**£m**
Adult Care	252.712	248.084	(4.628)
Corporate Services	47.354	46.910	(0.444)
Economic Development and Regeneration	0.700	0.600	(0.100)
Health and Communities (exc. Public Health)	3.657	3.420	(0.237)
Highways, Transport and Infrastructure	80.082	80.082	0.000
Strategic Leadership, Culture and Tourism	10.720	10.551	(0.169)
Young People	110.607	113.670	3.063
Total Portfolio Outturn	**505.832**	**503.317**	**(2.515)**
Interest and Dividend Income			0.000
Debt Charges			0.000
Risk Management			(0.047)
Total			**(2.562)**

A summary of the individual portfolio positions is detailed below.

Adult Care

There is a projected year-end underspend of £4.628m. The main variances are:

Purchased Services, £3.141m overspend – relates to an increase in the cost of complex care packages and a reduction in Continuing Health Care funding.

Assistive Technology and Equipment, £1.901m underspend – more targeted issuing has ensured that only the most appropriate community equipment is supplied, saving on the procurement of less suitable equipment.

Unallocated Budgets, £3.807m underspend – relates to budgets awaiting allocation during the year.

Due to the high projected underspend on the portfolio and an estimated increase of £1.350m in Better Care Fund grant income in addition to this, it is proposed that £5.000m of base budget is transferred from Adult Care to the Risk Management budget.

The budget savings target for 2019-20 is £5.732m. Of this target, £5.703m is expected to be achieved by the end of the financial year.

Additional funding has been provided in the 2019-20 budget for the main growth items:

- Adult Social Care Precept and Improved Better Care Fund - £12.439m, to cover the additional cost of independent sector fees and the pay award relating to staff working in Adult Care.

- Transformational Care Programme - £0.456m, to move 24 clients from long stay hospitals to social care provision in line with the independent living agenda.

The main risks which could impact on the portfolio’s outturn position are contained in Appendix Two.

Corporate Services

There is a projected year-end underspend of £0.444m. The main variances are:

Finance and ICT, £0.860m underspend - due to vacancy control. This will assist in managing a planned restructure aiming to deliver significant savings over the three years from 2020-21.

County Property, £0.583m overspend – this relates to the under achievement of the income target for industrial estate properties. Whilst occupancy is at a relatively high 92%, there are a number of the units where the full income level is not being achieved as some are leased to charities at below market rates, others are benefitting from rent free periods to attract businesses and offset maintenance costs. The Council has to pay the business rates on empty industrial units which has adversely affected the ability of the units to fully meet the return expected. These issues have been a consistent problem for a number of years, however, it must be remembered that the units are still delivering a net income. The income target is challenging and work is underway to ensure the units are placed on a sustainable basis moving forward.

Strategic Management, £0.364m underspend - relates to savings arising from previous restructures of senior management.

Legal Services, £0.318m overspend – demand for services means there is still a need to employ agency staff. A different model for delivering legal services is currently being considered with the aim to manage both service demand and costs more effectively.

Human Resources, £0.142m underspend – due to vacancy control. Departmental Human Resource functions are currently being centralised. Holding vacancies will assist in managing a planned restructure of the function as a whole which is expected to deliver significant savings in 2020-21 and 2021-22.

A budget savings target for 2019-20 of £1.340m has been allocated. Of this target, £1.152m of savings initiatives have been identified, all of which are expected to be achieved by the end of the financial year.

Additional funding has been provided in the 2019-20 budget for the main growth items:

- Legal Services - £0.300m (one-off), to support the high levels of demand for the service
- ICT Strategy - £0.200m, to ensure that ICT is aligned with the needs of the business and delivery of the Enterprising Council programme.
- Enterprising Council - £0.150m (one-off), to support transformational change.
- Learning Management System - £0.083m (one-off), to manage the replacement if the Council’s Learning Management system.
- HR SAP Development - £0.045m (one-off), to support the HR SAP Development team to generate financial savings.

The main risks which could impact on the portfolio’s outturn position are contained in Appendix Two.

Economic Development and Regeneration

There is a projected year-end underspend of £0.100m. The main variances are:

Economic Development, £0.173m underspend – Part of the budget for the Enhanced Enterprise and Investment Service is set aside to lever in external funding. Suitable projects which deliver sufficient value for money have not yet been identified, so this budget is not currently forecast to be spent.

Employment and skills, £0.073m overspend – relates to salary overspend, resulting from a budget deficit when the Head of Employment and Skills post was established.

No budget savings target has been allocated to this portfolio for 2019-20.

No additional funding has been provided to this portfolio in the 2019-20 budget.

There are no significant risks expected to impact on the portfolio's outturn position.

Health and Communities

The Health and Communities portfolio includes the Public Health budget of £39.477m, which is fully funded by the ring-fenced Public Health Grant for 2019-20. The forecast year-end position for the portfolio is an underspend of £0.643m. However, excluding Public Health, the portfolio is forecast to underspend by £0.237m. The main variances are:

Public Health, £0.345m underspend – a large proportion of the underspend continues to be generated from activity-based contracts which are not achieving anticipated levels of service. Some of the underspend will be used to mitigate the effects of a reduction of £1.071m in the Public Health Grant in 2019-20 and potential lower future funding levels.

Prior year underspends have been transferred into the Public Health Reserve. The balance on the reserve was £9.601 at 30 June 2019. The funds in this reserve are now fully committed.

Trading Standards, £0.198m underspend – reduced staffing costs following a restructure in December 2018.

A budget savings target of £0.157m has been allocated for 2019-20. £0.157m of savings initiatives have been identified, of which it is anticipated that £0.156m will be achieved by the end of the financial year.

Additional funding has been provided in the 2019-20 budget for the following growth items:

- Coroners - £0.270m, to establish new posts and increase daily fees to Assistant Coroners.
- Trading Standards (Older People Support) - £0.048m (one-off), to provide a programme to increase awareness and reduce instances of fraudulent activity against older people.

The main risks which could impact on the portfolio's outturn position are contained in Appendix Two.

Highways, Transport and Infrastructure

The Highways, Transport and Infrastructure portfolio is forecast to overspend by £2.622m, against a total budget of £77.460m. However, this will be brought into a break-even position, after the allocation of one-off funding from the Economy, Transport and Environment department's earmarked reserves as follows:

- £1.000m from the Winter Maintenance reserve.
- £1.622m from the prior-year underspends reserve.

Before the allocation of the reserve funding detailed above, the main variances are:

Unallocated Budget Savings, £5.250m overspend – savings targets not yet allocated to specific services.

Planning and Development, £1.105m underspend – mainly due to additional inspection fee income, paid to the Council by building developers, under Section 38 and 278 of the Highways Act (1980). The high levels of fee income reflect the present state of the local economy and the large number of developments currently underway.

Winter Maintenance, £1.027m overspend – of the £1.400m budget for the winter service, nearly £1.000m had already been spent by the end of June 2019. Further expenditure of £1.500m is forecast for the remainder of the year. These overspends will be supported by use of the Winter Maintenance earmarked reserve.

Waste Management, £0.994m underspend – lower than expected waste tonnages.

Public and Community Transport, £0.787m underspend – less support being paid to bus operators than expected.

The budget savings target for 2019-20 is £2.609m, with a further £3.321m target brought forward from previous years. Of this total target of £5.930m, £0.680m is expected to be achieved by the end of the financial year, with the expected base budget overspend being met from one-off funding, as explained above. Therefore there is currently a £5.250m forecast shortfall in achievement of budget savings, however the multi-year savings programme to 2023-24 does allow for some slippage to be covered by prior years' underspends, still delivering the savings target in total.

Additional funding has been provided in the 2019-20 budget for the main growth items:

- Waste Management - £1.500m, to cover the increased cost of delivering the waste treatment and disposal contracts across Derbyshire and increased cost of recycling credits.
- Highways Maintenance - £1.000m (one-off), to provide a co-ordinated programme of maintenance improvements.
- Public Transport - £0.500m, to maintain reasonable levels of public transport accessibility across Derbyshire.
- Water Body £0.100m (one-off), to enable the Council to meet its obligations to manage its water bodies under new regulations
- HS2 Co-ordination Officer £0.064m (one-off), to support representation of the Council's interests as the HS2 route is developed.
- Street Lighting Energy - £0.048m (one-off), to meet inflationary increases to the cost of street lighting energy.

The main risks which could impact on the portfolio's outturn position are contained in Appendix Two.

Any additional costs incurred from the identified risks will be met from the Economy, Transport and Environment Prior Year underspend earmarked reserve and the Winter Maintenance earmarked reserve, therefore none of these issues are expected to impact on the overall budget position for 2019-20.

Strategic Leadership, Culture and Tourism

A year-end underspend of £0.169m is projected. The main variances are:

Communications, £0.099m underspend – due to vacancy control, staff turnover and lower running costs.

Policy and Research, £0.111m underspend – due to vacancy control and reduced running costs.

Call Derbyshire, £0.111m underspend – due to vacancy control and staff turnover.

The budget savings target for 2019-20 is £0.542m, with a further £0.159m target brought forward from previous years. All of this total target of £0.701m, is expected to be achieved by the end of the financial year.

Additional funding has been provided in the 2019-20 budget for the following items:

- Community Managed Libraries - £0.742m (one-off), to fund the commitment to introduce community managed libraries
- Thriving Communities - £0.368m, to focus on radically reshaping demand, unlocking community potential and creating an alliance for work and skills.
- Enterprising Council - £0.094m, to support transformational change.

There are no significant risks expected to impact on the portfolio's outturn position.

Young People

The projected year-end position is an overspend of £3.063m. However, it is anticipated that the eventual overspend could be as high as £4.000m to £6.000m depending on the continued trend in the rate of placements for children in care.

This forecast outturn position includes £6.756m of Dedicated Schools Grant income, as a contribution to the cost of supporting Early Help services and children with additional needs. Income from this source is not guaranteed to continue at the same level in future years.

The main variances in respect of the forecast year-end position are:

Support to Children with Disabilities, £1.248m overspend – increasing demand for support and complexity of some individuals' needs.

Education Support Services, £1.213m overspend – an increase in the number of children with Special Educational Needs (SEN) driving demand for the Psychology and the Planning and Assessment teams. Also, it is forecast that the decision not to increase the price per meal charged to schools will contribute £0.312m to the overspend on the school catering service.

Placements for Children in Care, £0.814m overspend – placement numbers have continued to rise steadily over the last six months. There are currently more placements required than can be funded from the allocated budget.

Home to School Transport, £0.595m overspend – an increase in the number of journeys provided to children with SEN and an increase in the cost of those journeys, driven by economic factors and the need to provide more specialised vehicles.

Early Help and Preventative Services, £0.445m overspend – a shortfall in contributions from schools towards the Early Help offer, offset to some extent by vacant posts in the Multi-Agency and Youth teams. A review is being finalised which, when implemented, will result in a more targeted Early Help service.

Pensions Payable to Former Staff, £0.242m overspend – enhanced pension obligations payable to staff who left during the early 1990s.

Unallocated Budget, £1.572m underspend – this represents budget released as a result of changes to the Early Help offer. It is being held to cover an anticipated £1.767m of grant income which the government has signalled will be withdrawn in 2020-21. In the interim it will help offset some of the portfolio's underspend against its current budget.

A savings target of £3.013m has been allocated for 2019-20. Savings initiatives totalling £3.013m have been identified, all of which are expected to be achieved by the end of the financial year.

Additional funding has been provided in the 2019-20 budget for the main growth items:

- Placement Demand Pressures - £3.000m plus one-off funding of £5.000m, to support the increase in the demand for placements and the increasing complexity of children and young peoples' needs.
- Social Worker Recruitment - £1.300m plus one-off funding of £2.600m, as part of a four year recruitment plan to increase the number of social workers to ensure caseloads are at a healthy working level consistent with good practice.
- Home to School Transport (SEN) - £1.450m, to support the increased cost of transporting children and young people to school, pupil referral units or alternative provision when they have been excluded from mainstream schools.
- Increase in Special Guardianship Placements - £1.097m, to ensure the budget is sufficient to meet the current level of costs payable to those who have parental responsibility under a special guardianship order.
- Children in Care Legal Proceedings - £1.050m (one-off), reflecting the greater number of court proceedings and the increased use of external legal firms to present cases.
- Children's Homes - £0.450m, to provide additional staffing required to meet the needs of children and young people placed in homes.
- Care Leavers - £0.402m (one-off), to meet the cost of additional statutory duties towards care leavers.
- SEND Assessment and Planning - £0.275m, to provide additional staffing.
- Mobile Working - £0.260m (one-off), to develop solutions to enable more flexible working with the aim of achieving cost benefits and improvements to the timeliness of information.
- Complex Case Pooled Budget - £0.250m (one-off), contingency for the Council's contribution to the pooled budget reflecting the increasing levels of expenditure in recent years.

- Child Protection - £0.105m (one-off), to fund the cost of staff needed to respond to an increased number of children on protection plans. Staff will be reduced if the number of children on plans reduces.
- Children's Participation - £0.080m (one-off), to fund a delay to a planned budget reduction to the support provided to children and young people to participate in decision making. The service is seeking to identify alternative savings options.
- Foster Carers - £0.060m, to cover the inflationary increase to foster carer allowances from April 2019.

The main risks which could impact on the portfolio's outturn position are contained in Appendix Two.

Dedicated Schools Grant

The Dedicated Schools Grant (DSG) is a ring-fenced grant comprising four individual blocks: Schools Block, High Needs Block (HNB), Early Years Block and Central Block. Allocations of the blocks are governed by the Schools and Early Years Finance Regulations. Any underspend or overspend on the grant is carried forward to future years within the accumulated balance of the DSG Earmarked Reserve.

After utilising available balances from the DSG reserve, it is anticipated that 2019-20 HNB expenditure will exceed the allocated grant income by £0.968m. This deficit will accumulate in the DSG reserve and will be funded by earmarking £0.968m from the General Reserve.
Unless additional Government funding is awarded, it is forecast that HNB overspends will total £9.909m between 2019-20 and 2022-23, after using available balances from the DSG reserve:

	2019-20	2020-21	2021-22	2022-23	**Total**
	£m	£m	£m	£m	**£m**
HNB Deficits to Fund	0.968	2.504	2.660	3.777	**9.909**

£9.909m represents the cumulative pressure on the General Reserve over the four year period.

Summary

A Council portfolio underspend of £2.515m is forecast, after the use of £2.622m of Earmarked Reserves to support the Highways, Transport and Infrastructure portfolio. Any underspends in 2019-20 will be used to manage the budget in 2020-21.

The Debt Charges budget is projected to break-even. This is based on forecast interest payments, anticipated Capital Financing Requirement (CFR), a Minimum Revenue Provision (MRP) of 2.5% in keeping with the policy reported to Cabinet on 22 November 2016 and an £8.000m one-off reduction in the Council's Capital Adjustment Account Reserve. This one-off reduction was reported to Council on 7 February 2018. This reduction is made on the basis that the amounts set aside to repay debt over the last ten years are well in excess of what is required to ensure the Council can repay its debts.

The Risk Management Budget is forecast to underspend by £0.047m. This will support the management of a balanced budget in future years.

Interest and dividends received on balances is estimated to break even by the year-end. The interest base rate is currently 0.75%, however, the Council utilises a range of investments to maximise its income.

Details of the Council's Earmarked Reserves balances as at 30 June 2019 are set out in Appendix One. A review of the Council's reserves balances will be reported to Cabinet later in the year.

A summary of the expected achievement of budget savings targets is provided at Appendix Three. The budget savings target for 2019-20 is £13.393m, with a further £3.480m target brought forward from previous years. The savings initiatives identified to meet this target currently fall short by £5.438m, therefore further proposals will need to be brought forward to ensure the Council continues to balance its budget. Of this total target of £16.873m, £10.650m is expected to be achieved by the end of the financial year. Therefore, there is a £6.223m forecast shortfall in achievement of budget savings. The resulting base budget overspend is offset to some extent by one-off underspends or is being met from one-off funding from earmarked reserves.

The age profile of debts owed to the Council and the value of debts written off is disclosed in Appendix Four. This information is collected on a departmental rather than portfolio basis.

3 Financial Considerations

As set out above.

4 Other Considerations

In preparing this report the relevance of the following factors has been considered: legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property, transport and social value considerations.

5 Background Papers

Papers held in Technical Section, Finance & ICT, Room 137, County Hall.

6 Officer's Recommendations

That Council:

6.1 Notes the 2019-20 budget monitoring position as at 30 June 2019.

6.2 Notes the virement of £5.000m base budget from Adult Care to the Risk Management budget approved by Cabinet.

PETER HANDFORD

Director of Finance & ICT

Earmarked Reserves as at 30 June 2019

Adult Care	£m
Older People's Housing Strategy	22.676
Other reserves	0.283
Total Adult Care	**22.959**
Corporate Services	
Budget Management	29.089
Loan Modification Gains/Losses	28.440
Insurance and Risk Management	20.069
Revenue Contributions to Capital	16.591
Planned Building Maintenance	5.932
Business Rates Strategic Investment Fund	4.889
Business Rates Pool	4.716
Uninsured Financial Loss	3.500
Computer Purchasing	3.215
Property Insurance Maintenance Pool	2.837
Property DLO	2.503
Change Management	2.379
PFI Reserves	1.981
Prior Year Underspends	1.468
Community Priorities Programme	1.025
Other reserves	4.491
Total Corporate Services	**133.125**
Economic Development and Regeneration	
D2 Growth Fund	0.200
Markham Environment Centre	0.114
Skills Training	0.101
Other reserves	0.417
Total Economic Development and Regeneration	**0.832**
Health and Communities	
S256/External Funding	0.254
Other reserves	0.438
Total Health and Communities	**0.692**
Highways, Transport and Infrastructure	
Prior Year Underspends	9.274
Broadband	3.931
Winter Maintenance	2.000
Road Safety Public Service Agreement (PSA)	1.182
Waste Recycling Initiatives	0.598

IT Reserve	0.559
Derby and Derbyshire Road Safety Partnership Reserve	0.500
Other reserves	1.511
Total Highways, Transport and Infrastructure	**19.555**
Strategic Leadership, Culture and Tourism	
Policy & Research	1.044
Prior Year Underspends	0.913
Community Managed Libraries	0.742
Derbyshire Challenge Fund	0.466
Library Restructure	0.429
Derwent Valley Mills World Heritage Site	0.193
Other reserves	0.594
Total Strategic Leadership, Culture and Tourism	**4.381**
Young People	
Tackling Troubled Families	4.083
Standards Fund (Schools)	1.170
Childrens Services IT Systems	0.746
School Rates Refunds	0.600
Primary Teacher Pool Premium	0.496
Youth Activity Grants	0.330
Foster Carer Adaptations	0.262
Unaccompanied Asylum Seeking Children	0.243
Other reserves	0.778
Total Young People	**8.708**
Total Portfolio Earmarked Reserves	**190.252**
Schools	
Schools Balances	25.776
Dedicated Schools Grant (DSG)	5.603
Total balances held for and on behalf of schools	**31.379**
Public Health Grant	**9.601**

Service	Risk	Sensitivity* £m	Likelihood (1 = Low, 5 = High)
*Sensitivity represents the potential negative impact on the outturn position should the event occur.			
Adult Care			
Transforming Care Programme	There is currently an NHS England aim to transfer long-term hospital clients from Health to Social Care. Should this occur, it is expected that Health will fund 50% of these placements, but the remainder will have to be met by the Council.	0.910	4
Corporate Services			
County Property	Loss of key personnel due to uncertainty over a review planned to be implemented from January 2020. Potential net loss of income.	0.200	3
Health and Communities			
Coroners	National shortage of Pathologists may impact by increasing fees	0.200	2
Highways, Transport and Infrastructure			
Winter Maintenance	Impact of a severe winter.	1.500	4
Street Lighting Energy and Maintenance	Further energy price increases, or further slippage in implementation of the LED programme.	0.300	2
Highways Management	Deterioration in ability to fund salaries from capital projects and potential deficit on the Highways Construction overhead accounts.	0.800	2
Waste Management	Costs associated with resolving the future of the Waste Treatment Plant at Sinfin.	1.000	5
Young People			
Placements	Increased number of children requiring placements.	2.500	4
Social Care services	Increase in number of referrals meeting social care thresholds.	0.300	4

Service	**Risk**	**Sensitivity* £m**	**Likelihood (1 = Low, 5 = High)**
	Inability to recruit and retain sufficiently experienced social workers.	1.000	3
Department wide	Data security breaches and the subsequent risk of serious damage to reputation and financial impact if fines are imposed	0.500	3
Mult-Agency Teams	Not meeting targets for Troubled Families data collection resulting in loss of income	0.300	3

APPENDIX 3

Budget Savings Monitoring 2019-20

Portfolio	Budget Savings Targets Not yet achieved Brought Forward Prior Year £m	Budget Savings Targets Current Year £m	Budget Savings Targets Total Target £m	Savings Initiatives Identified Still to be Achieved Prior Year £m	Savings Initiatives Identified Current Year £m	Savings Initiatives Identified Total Identified £m	Target not Identified (Shortfall)/ Additional Identified Savings £m	Actual Savings Forecast Forecast to be achieved by Financial Year End £m	Savings Shortfall Actual (Shortfall)/ Additional Achievement of Savings Target £m
AC	0.000	5.732	**5.732**	0.000	5.732	**5.732**	0.000	5.703	(0.029)
CS	0.000	1.340	**1.340**	0.000	1.152	**1.152**	(0.188)	1.152	(0.188)
EDR	0.000	0.000	**0.000**	0.000	0.000	**0.000**	0.000	0.000	0.000
HC	0.000	0.157	**0.157**	0.000	0.157	**0.157**	0.000	0.156	(0.001)
HTI	3.321	2.609	**5.930**	0.000	0.680	**0.680**	(5.250)	0.680	(5.250)
SLCT	0.159	0.542	**0.701**	0.159	0.542	**0.701**	0.000	0.701	0.000
YP	0.000	3.013	**3.013**	0.000	3.013	**3.013**	0.000	2.258	(0.755)
Total	3.480	13.393	**16.873**	0.159	11.276	**11.435**	(5.438)	10.650	(6.223)

AC = Adult Care ; CS = Corporate Services ; EDR = Economic Development and Regeneration ; HC = Health and Communities
HTI = Highways, Transport and Infrastructure ; SLCT = Strategic Leadership, Culture and Tourism ; YP = Young People

APPENDIX 4

Age profile of debt, relating to income receivable, at 30 June 2019

0 - 30 Days £m	31 - 365 Days £m	1 - 2 Years £m	2 - 3 Years £m	3 - 4 Years £m	Over 4 Years £m	Total £m
Adult Care						
1.045	6.682	1.246	0.826	0.326	0.619	**10.744**
9.7%	62.2%	11.6%	7.7%	3.0%	5.8%	**100.0%**
Children's Services						
0.859	0.603	0.075	0.030	0.013	0.015	**1.595**
53.9%	37.8%	4.7%	1.9%	0.8%	0.9%	**100.0%**
Economy, Transport and Environment						
1.278	5.605	0.530	0.044	0.021	0.009	**7.487**
17.1%	74.9%	7.1%	0.6%	0.3%	0.1%	**100.0%**
Commissioning, Communities and Policy						
2.308	1.403	0.250	0.094	0.018	0.176	**4.249**
54.3%	33.0%	5.9%	2.2%	0.4%	4.2%	**100.0%**
All Departments						
5.490	14.293	2.101	0.994	0.378	0.819	**24.075**
22.8%	59.4%	8.7%	4.1%	1.6%	3.4%	**100.0%**

The value of debt written off in the 12 months up to 30 June 2019

Department	£m
Adult Care	0.360
Children's Services	0.030
Economy, Transport and Environment	0.013
Commissioning, Communities and Policy	0.062
All Departments	**0.465**

This page is intentionally left blank

Agenda Item No

DERBYSHIRE COUNTY COUNCIL

COUNCIL

9 October 2019

Report of the Director of Finance & ICT

FIVE YEAR FINANCIAL PLAN

1 Purpose of the Report

That Council approves the updated Five Year Financial Plan (FYFP) for the period 2019-20 to 2023-24, as recommended by Cabinet, noting the uncertainty and risks set out in the report, the budget savings forecast to be required to help balance the budget over the medium term and the budget savings proposals.

2 Information and Analysis

The Five Year Financial Plan (the Plan) is a medium term financial plan which sets out the overall shape of the Council's budget, by establishing what resources are available for allocation to reflect Council and community priorities. The Council Plan sets out service and organisational priorities. This is reflected in the development of the Plan.

The Plan fully reflects the outcomes from the Local Government Finance Settlement 2019-20 and the Autumn Budget 2018.

The Plan shows that a total of £63m of budget savings are required over the period 2019-20 to 2023-24. To continue to provide a financially sustainable base, on which to provide services over the medium term and not leave the Council unable to deal with financial risk, it is imperative that the necessary savings are identified and planned for achievement.

In the six months since the Revenue Budget 2019-20 was compiled, departments have been reassessing their identified savings, with a view to bridging the savings shortfall. Cross departmental budget savings proposals have also been made. In headline terms the Council has now identified measures which should help achieve substantially all of the budget gap over the period of the Plan.

The Plan therefore sets out the budget reductions and other measures the Council will need to take and identifies the remaining savings shortfall, along with possible solutions for dealing with this. The timescales are important, the majority of any savings need to be achieved in the period up to 31 March 2022, this reflects a number of issues:

- the final reductions from Government in Revenue Support Grant;
- the desire by the current administration to have a 0% Council Tax rise in both 2020-21 and 2021-22 as well as finding the budget reductions met from one-off measures in 2019-20;
- uncertainties over future Government support;
- the emergence of further pressures; and
- the reduction in reserves needed to help manage the budget over the medium term.

Significant consultation and planning timeframes are required to achieve many of the savings proposals identified in the Plan. Delays in agreeing proposals could result in overspends by departments, which would then further deplete the level of General Reserve held by the Council, decreasing its ability to meet short term, unforeseeable expenditure, such as occurred recently at Toddbrook Reservoir. Of the budget savings proposals identified, £6.017m (14%) have been categorised as having a Green RAG status, £33.134m (74%) have been categorised as Amber and £5.341m (12%) have been categorised as Red. The table below summarises the RAG status of identified budget savings, by department.

	Budget Savings RAG Status %		
	Green	**Amber**	**Red**
Adult Care	1	95	4
Children's Services	37	39	24
Economy, Transport and Environment	8	91	1
Commissioning, Communities and Policy	35	30	35

In many cases the proposals will be subject to consultation and equality analysis processes. In including potential cost savings in this report no assumptions have been made as to the outcome of those consultations or the outcome of final decisions which have yet to be made. With regard to the savings proposals which have not yet been considered by Cabinet and, where appropriate, by individual Cabinet Members, the necessary consultation exercises will be undertaken and any equality implications will be assessed before final decisions are made. Throughout the process it will be essential to ensure that the Council continues to meets its statutory and contractual obligations.

The Plan reflects that the Council is currently part of the Government's multi-year funding offer, which provides some funding certainty until 2019-20. There is uncertainty over future funding because of changes the Government is committed to making in the funding of councils via retained Business Rates and remaining Government grant funding regimes. It was expected that a further multi-year funding offer would be available for three years from 2020-21. However, the Government's has confirmed that its Fair Funding Review is behind schedule and that a new multi-year funding settlement will be delayed by at least one year.

At present the Council has no indication of how these technical changes, alongside the results of the next Comprehensive Spending Review, will affect the Council's funding, although funding for 2020-21 is now expected to be provided on the same basis as in 2019-20, with the 2019-20 funding streams rolled over and additional sums likely to be available to deal with pressures in Social Care and Special Education. In the absence of detailed information, the Plan assumes that funding for 2020-21 to the end of the Plan period continues on the known basis. The plan will be updated further when detailed allocations for 2020-21 have been announced.

Amber Valley Borough Council (AVBC) has recently commenced a consultation on increasing the level of Council Tax Support received by Council Tax Benefit claimants by reducing the amount they are expected to contribute from the current level of 8.5% to zero. A final decision on the 2020-21 scheme will be made at the AVBC Council meeting in January 2020. The cost to the Council of AVBC increasing Council Tax Support is likely to be in the region of £0.350m. The Council does not agree with this proposal. The Council does not expect that other districts or boroughs will follow in the near future.

The Plan is attached at Appendix One to this Report. Budget savings proposals identified for the period 2020-21 to 2023-24 are attached at Appendix Two to this Report. Appendix Two also compares the level of savings proposals identified to the Plan budget savings targets, both in summary and by department, and on an annual and cumulative basis, with savings shortfalls and surpluses highlighted. A summary of the RAG status of savings proposals identified, by year, for each department, is also included by Plan year.

The Plan will next be reviewed and incorporated in the Revenue Budget 2020-21 Cabinet Report in January 2020.

3 Financial Considerations

As set out above.

4 Legal Considerations

The Council’s Financial Regulations provide that the Five Year Financial Plan must be proposed by Cabinet and approved by the Full Council.

As in previous years an initial Equality Impact Assessment (EIA) will be undertaken at a corporate level. It is anticipated that this corporate assessment will help identify areas where there is a significant risk of adverse impact which would then be subject to a full equality impact assessment process. Alongside the budget consultation, the budget saving proposals in the updated Five Year Financial Plan will be considered to assess which proposals will need a separate targeted consultation with staff, the public and/or with current/potential service users. The outcomes of these processes will be reported to Council/Cabinet as part of the budget process and specific assessments/consultation outcomes reported to Cabinet before decisions are made on individual services.

5 Other Considerations

In preparing this report the relevance of the following factors has been considered: prevention of crime and disorder, equality and diversity, human resources, environmental, health, property, transport and social value considerations.

6 Background Papers

Papers held in Technical Section, Room 137, County Hall.

7 Officer's Recommendations

That Council:

(i) approves the Five Year Financial Plan;
(ii) notes the uncertainty and risks set out in the report; and
(iii) notes the budget savings proposals set out in the report.
(iv) notes that departments will be asked to make further savings over the Plan period to reduce reliance on the General Reserve and help meet future emerging pressures.

PETER HANDFORD

Director of Finance & ICT

Five Year Financial Plan 2019-20 – 2023-24

Peter Handford BA(Hons) PGCert FCPFA
Director of Finance & ICT

August 2019

DERBYSHIRE
County Council

Approval and Authentication

Name	Job Title	Signature	Date
Peter Handford	Director of Finance & ICT		1 September 2019
Cabinet			

Contents

EXECUTIVE SUMMARY

The Five Year Financial Plan (the Plan) is a medium term financial plan which sets out the overall shape of the Council's budget by establishing what resources are available for allocation to reflect Council and community priorities. The Council Plan sets out the service and organisational priorities. This is reflected in the development of the Plan.

The Plan has been updated to reflect the outcomes from the Local Government Finance Settlement 2019-20 and the Autumn Budget 2018. The Plan shows that a total of £63.168m of budget savings are required over the period 2019-20 to 2023-24.

In headline terms the Council has now identified measures which should help balance the budget over the medium term. There is a clear challenge to ensure the Council achieves those savings over the next few years. In the six months since the Revenue Budget 2019-20 was compiled, departments have been reassessing their identified savings, with a view to bridging the savings shortfall. In order to help manage the achievement of savings, a number of corporate savings have also been developed.

An annual shortfall of £3.382m remains from the 2019-20 budget savings target of £13.393m. Details of identified budget savings for 2020-21 to 2023-24, totalling £44.792m of departmental annual budget savings and £8.000m of cross-departmental annual budget savings, are shown at Appendix Two. Overall, a shortfall of £0.365m annual budget savings, against the £63.168m budget savings target, remains over the five years of the Plan.

Of the budget savings proposals identified, £6.017m (13%) have been categorised as having a Green RAG status, £33.134m (74%) have been categorised as Amber and £5.641m (13%) have been categorised as Red.

Adult Care budget savings proposals include 95% with an Amber RAG status, 4% Red and 1% Green. Children's Services budget savings proposals include 39% with an Amber RAG status, 37% Green and 24% Red. Economy, Transport and Environment budget savings proposals include 88% with an Amber RAG status, 7% Green and 5% Red. Commissioning, Communities and Policy budget savings proposals include 35% with a Green RAG status, 35% Red and 30% Amber.

There is an overall cumulative budget shortfall of £39.052m by the end of 2023-24, comparing the profile of budget savings required over the period of the Plan to the profile of budget savings identified. It is anticipated that this shortfall will be funded from general reserves. Clearly the timescale of savings is important. The majority of any savings need to be achieved in the period up to 31 March 2022. This reflects two variables: the final reductions from Government in Revenue Support Grant and the desire by the current administration to have a 0% Council Tax rise in both 2020-21 and 2021-22 as well as deciding not to take the full increase possible in 2019-20.

The Plan reflects that the Council is currently part of the Government's multi-year funding offer, which provides some funding certainty until 2019-20. There is uncertainty over future funding because of changes the Government is committed to making in the funding of councils via retained Business Rates and remaining Government grant funding regimes. It was expected that a further multi-year funding offer would be available for three years from 2020-21. However, the Government has confirmed that its Fair Funding Review is behind schedule and that a new multi-year funding settlement will be delayed by at least one year.

At present the Council has no indication of how these technical changes, alongside the results of the next Comprehensive Spending Review, will affect the Council's funding, although funding for 2020-21 is now expected to be provided on the same basis as in 2019-20, with the 2019-20 funding streams rolled over. In the absence of other information, the Plan assumes that funding for 2020-21 to the end of the Plan period continues on the same basis. In particular, a balanced budget is prevalent on Improved Better Care Funding being available beyond 2019-20.

The Council was pleased to be announced as one of ten successful 100% business rates retention pilots for 2018-19. The additional one-off funding is being utilised to support economic growth and regeneration in the county, whilst also providing financial support to vital services.

The additional improved Better Care Funding announced in the Government's Spring Budget 2017 helps to address key priorities for integrated health and social care activities. The Council will continue to work with health sector colleagues in developing the Sustainability and Transformation Plan. However, it is important that the Government confirms that local authorities will continue to receive the additional improved Better Care Fund allocations beyond 2019-20. Local authorities continue to face increased cost pressures as the demand for adult and children's social care is projected to rise over the medium term.

A Council Tax increase of 3.99% has been agreed for 2019-20 and is helping to support vital services. No decisions have been made in respect of later years. However, a freeze in Council Tax has been assumed for two years from 2020-21 and a 2% increase in Council Tax assumed for two years from 2022-23. Local authorities have urged Government to provide additional funding to support vital services, particularly children's social care, rather than raise additional funding from council taxpayers. The ability to deliver this ambition around Council Tax will be dependent upon Government decisions regarding future funding of local authorities and the successful delivery of budget reductions over the medium term.

Business rates growth is expected year-on-year in line with inflation. It should be noted that funding projections from 2019-20 are based on a 50% business rates scheme.

Expenditure is supported by the use of one-off contributions from both the Budget Management Earmarked Reserve and General Reserve.

The Government's intention to increase the Living Wage to £8.67 per hour by 2020 (the Low Pay Commission's latest forecast) gives rise to cost pressures associated with the continued promotion of the National Living Wage.

A pay award of 2% per annum has been confirmed for 2019-20 and is assumed for 2019-20 and beyond, following the Government's decision to lift the 1% public sector pay cap. Any amount over and above 2% will have to be met from within existing budgets.

As the Council has paid off a number of loans without taking on additional borrowing, this resulted in an opportunity to reduce the external debt charges budget by £8.500m in 2018-19. In 2016-17 a review of the Council's Minimum Revenue Provision (MRP) budget, alongside a review of its Council's MRP Policy considered that future savings could be achieved without compromising the future prudent provision made by the Council. In conjunction with the policy being reviewed, the level of the Capital Adjustment Account (CAA) reserve in to which the money is set aside was reviewed. Whilst the Council will continue to set aside a prudent amount of revenue for MRP over the period of the Plan, it will ensure that its future annual provision is appropriate. The base budget is expected to have returned to its 2017-18 level, after one-off reductions, by 2021-22. The Council will however continue to review its MRP policy annually to ensure in future years that adequate/prudent provisions are still being made.

Additional income from interest receipts is projected over the next year on the basis that the base rate of interest will increase.

The Council continues to face significant cost pressures, particularly with regard to adult and children's social care. The additional Council Tax income from the Adult Social Care precept and the additional 1% flexibility announced in December 2017, helps to raise income for vital services. However, the Council will continue to make representations to Government to ensure that demand-led services are fully funded. The Council will continue to undertake appropriate analysis of the Government's proposals for the distribution of funding to local authorities by responding to consultations to ensure that Derbyshire receives a fair funding deal.

Any additional income from Council Tax taxbase and collection fund surpluses over and above that identified in the Plan will help to manage the Risk Management Budget over the medium term. The Council has maintained a Risk Management Budget for a number of years, the purpose of which is to provide a base budget from which the Council can help to manage some of the longer term risks and pressures, alongside the resources available in the General Reserve. The balance on the budget was depleted in 2019-20, providing support to priority services. However, the Council has also established a Budget Management Earmarked Reserve, which will be used over the medium term to meet one-off budget pressures in the Plan. It is therefore expected that any unforeseen risks or pressures can be prudently managed.

The Council faces a number of risks over the medium term, not least is the uncertainty of the level of Government funding beyond 2019-20. There are significant demand-led cost pressures associated with delivering vital council services such as adult and children's social care and waste disposal. The Plan assumes that there will be no further cuts to the levels of mainstream funding to local authorities. Any further funding reduction is likely to result in further budget savings over and above those already identified in the Plan to achieve a balanced budget.

INTRODUCTION

The Plan sets out the Council's continued commitment to provide local services which represent the best possible value for money for Derbyshire residents. It builds on the achievements of the past and charts a clear course for the future in line with service priorities agreed as part of the Council planning process as well as the Council's financial and other resource strategies.

Its purpose is to support corporate planning which will shape the Council's Financial Strategy and annual budgets. The Plan is a medium term financial plan which sets out the overall shape of the Council's budget by establishing what resources are available for allocation to reflect Council and community priorities. The Council Plan sets out the Council's strategic direction, its ambitions and priorities, structured around four key outcomes for Derbyshire, which the Council is working towards with partners and local communities. The Council is striving to be "an efficient and high performing council delivering high quality, value for money services".

The Council wants Derbyshire to have:

- **Resilient and thriving communities** where local people work together, in new and dynamic ways with public services.
- **Happy, healthy people and families** with solid networks of support, who feel safe and in control of their personal circumstances and aspirations.
- **A strong, diverse and adaptable economy** which makes the most of Derbyshire's rich assets and provides meaningful employment opportunities for local people.
- **First class public services** which enhance the educational, cultural, physical and social environment of Derbyshire and make it a great place to live, visit and work.

The Council's key priorities to improve outcomes are:

- Work efficiently and effectively.
- Unlock economic growth and access to economic opportunities.
- Invest in employment and skills.
- Repair and improve the condition of Derbyshire roads.
- Improve accessibility in vulnerable and rural communities.
- Improve social care.
- Transform services for people with learning disabilities.
- Keep children and adults safe.
- Be a good corporate parent for children in our care.
- Help children and young people get the best start.
- Encourage healthy lifestyles and reduce future health and care needs.
- Champion local communities.
- Support local library services.
- Protect local people and communities.
- Promote Derbyshire as a global cultural and tourist destination.
- Protect and enhance the natural environment.

A number of vital cross cutting flagship projects will be progressed over the life of the Council Plan:

- Explore the use of **new delivery and commissioning models** across the Council to achieve service priorities.
- Restart the Council's **£30 million Care Programme** to provide new modern care homes for the county's older people.
- Work with communities to secure better outcomes for less by developing the **thriving communities approach.**
- Work with partners to deliver the **One Public Estate Programme** making more efficient use of the Council's properties and assets.
- **Enable development**, including the building of new homes on surplus Council land, securing income to invest in other Council services.

Progress and Performance:

- Major regeneration and inward investment programmes boosting economic growth. For example, Markham Vale is one of the most successful enterprise zones in the country, currently having brought 1,628 jobs to the local area, with a further 2,700 planned and over £130 million of private sector investment to date, against a target of £250m in total. The Council's focus on maximising the county's tourism offer is seeing expansion in the visitor economy.
- Reclamation of large scale, heavily contaminated, brownfield sites including: delivery of over £174m worth of clean up at The Avenue site which is now being actively developed for housing and employment and over £18m of clean up over 28 hectares at the former Coalite site, to deliver 1500 jobs over the next few years.
- Leading delivery of the HS2 East programme through Derbyshire, Nottinghamshire and Leicestershire, including: bringing forward an expanded HS2 station at Chesterfield and major inward investment to create the new HS2 hub station at Toton.
- A partnership focus on implementing overall systems change in health and social care is delivering results – for example the number of bed days lost to delayed transfers of care have reduced by 6,804 days in one year, a remarkable achievement for the local system despite increased demands, particularly during a challenging winter period.
- The Council is also delivering on its ambitions to provide new modern care homes for older people, beginning with a new care home in Cotmanhay.
- Derbyshire was the highest performing county council for public satisfaction with roads and pavements, placed first out of 31 county councils participating in the National Highways and Transportation survey in December 2017. Known road defects for the size of the county are very low (600 as at September 2018) and 89% of defects are repaired within target timescales. Derbyshire's roads are now safer than at any time since the early 1940s.

- A continued low rate of children in care reflects successful joint working across the children's safeguarding system. Commitment to improving outcomes for children in care and a nationally recognised virtual school has enabled individual children in care to achieve good rates of progress, and there has been a sustained increase in the number of care leavers entering higher education since 2014. High proportions of care leavers live in suitable accommodation and the proportion in employment, education and training is just above English average.
- Access to services for rural areas has been protected with continued support for subsidised bus routes at £2.6 million per year. The £34 million Digital Derbyshire partnership programme is on track to bring faster broadband to 98% of Derbyshire homes and businesses by the end of 2018. 40% take up has been achieved, meaning Digital Derbyshire is one of the highest performing programmes in the country.
- Working with partners to provide advice and support to Rolls-Royce workers after the company announced it was to shed 4,600 jobs in the UK.
- Championing and supporting the hundreds of people in Ashbourne who experienced water shortages in Summer 2018 and leading the Local Resilience Forum to support Severn Trent Water in their response.
- Holding Derbyshire Community Care Group (CCG) to account through the Health Improvement and Scrutiny Committee for proposed cuts of £1.2 million that could affect 22 Derbyshire charities and community groups delivering services for many of the county's most vulnerable residents.
- Listening to communities' concerns regarding INEOS' proposals to explore shale gas in north east Derbyshire, holding two public enquiries and rejecting the application due to the impact on local roads and road safety, harm to the nature of the green belt and unacceptable night time noise.

The Plan demonstrates savings in the region of £63m are required over the five year period. The Council has put in place plans to identify savings required in order to achieve a balanced budget over the medium term. The Revenue Budget 2019-20 exemplified that total savings of £30m had been identified by departments over the five years. In the six months since the Revenue Budget 2019-20 was compiled, departments have been reassessing their identified savings to bridge the shortfall and consideration has been given to how any remaining shortfall can be addressed.

Departments will continue to find better ways of working and review the delivery of services that will realise further savings in order that a balanced budget can be set each year. Where appropriate, this will include examination of thresholds to access services and expected outcomes to ensure resources are effectively allocated to support those in need.

There continues to be an increased demand for services, leading to significant cost pressures in providing essential services such as social care, highways maintenance, public transport and waste. The focus for support from Council resources is likely to shift towards Safeguarding Services for Children as the improved Better Care Fund and additional precept help to alleviate pressures in Adult Care. The Council adopts a proactive approach in response to these demands through the identification of future pressures and associated risks, and development and implementation of plans to meet those pressures. The Council's Senior Members and Officers have lobbied Derbyshire

MP's regarding improving funding for the Council and have subsequently met with the Secretary of State for Housing, Communities and Local Government to further promote the need for funding reform

Most important of all, is the Council's commitment to continuous improvement and value for money. The Council challenges value for money through its positive Enterprising Council approach to achieving best value and performance management; internally set targets are designed to be ambitious and stretching.

Opportunities

Service re-design has become an accepted and valuable tool in developing services to provide a clear customer focus. The Council is examining modern and innovative ways of providing services. At the moment, around 50% of Council expenditure is provided on the Council's behalf by the voluntary sector, parish councils, public-private partnerships, private contractors or charitable and community interest companies. The Council has adopted an "Enterprising Council" approach, looking at all types of delivery models in the future, including sharing or trading services with other councils. The role and shape of public services has changed dramatically and the Council faces significant challenges in providing the services local people want and need.

Being an Enterprising Council means:

- value for money is at the heart of everything the Council does
- the Council is efficient and effective
- the Council focuses on getting the best results for Derbyshire's residents, whether by the Council delivering a service, or by using an external organisation − there is no one size fits all
- the Council has a bold, innovative and commercial mind-set
- the Council does things 'with' local people rather than 'to' them and values fairness, openness and partnership
- the Council is proud of Derbyshire and ambitious for its public services.

The Council is actively pursuing opportunities to work with other local authorities, including exploring a proposal to create a strategic alliance. This would focus on driving growth and prosperity in the East Midlands region through joint work on transport and other infrastructure, employment, skills and strategic planning. The alliance would involve councils from the four counties of Nottinghamshire, Derbyshire, Leicestershire and Lincolnshire, along with the cities of Derby, Leicester and Nottingham, the local enterprise partnerships and Chambers of Commerce and would ensure the East Midlands punches above its weight in supporting the wider aims of the Midlands Engine and Midlands Connect.

In summary, this Plan reflects a determination on the part of the Council to build on past successes, to focus on areas for improvement, to secure continued excellent value for money and to take the lead on developing new and better ways of delivering quality public services.

NATIONAL AND LOCAL CONTEXT

The Plan has been updated to reflect the outcomes from the Government's Autumn Budgets 2018.

Autumn Budget 2018

On 29 October 2018, the Government announced details of the Autumn Budget 2018. The key announcements relevant to local government were:

- £240m additional funding for social ca re to prevent bed-blocking in 2018-19 and 2019-20, alongside an additional £410m for adult and children's social care in 2019-20.
- £420m to be allocated in 2018-19 to local authorities to repair roads, tackles potholes and keep bridges open and safe.
- The Government's planned Green paper on the future financing of Social Care has been delayed.
- £84m over five years for up to 20 local authorities to help children stay at home with their families.
- £400m one-off payment to schools, £10,000 for each primary and £50,000 for each secondary, to spend on equipment and facilities.
- £45m additional Disabled Facilities Grant.
- Authorities piloting the 100% rates retention scheme are expected to gain £0.8bn in 2018-19.
- 75% Business Rates retention is still intended to be implemented in April 2020. However, there is still uncertainty regarding the timeline for implementation of 100% rates retention.
- 100% business rates relief on public lavatories.
- £1,500 business rates discount on office space occupied by local newspapers to continue in 2019-20.
- Retail properties with a rateable value below £51,000 will have their rates bill reduced by one-third, for two years from April 2019.
- Local authorities to be fully compensated for any loss from business rates measures announced in the budget.
- The National Living Wage will rise by 4.9% from £7.83 per hour to £8.21 from April 2019. The National Minimum Wage rates will be increased to £7.70 for 21-24-year olds, £6.15 for 18 to 20-year olds, £4.35 for 16-17-year olds and £3.90 for apprentices, an increase of 4.3%, 4.2%, 3.6% and 5.4% respectively.
- Employers paying the Apprenticeship Levy to be allowed to transfer up to 25% of their funds to pay for apprenticeship training in their supply chain.
- £650m to support high street rejuvenation and improve transport links.
- The National Productivity Investment Fund (NPIF) was to provide £23bn between 2017-18 and 2021-22 for capital investment in housing, transport and digital infrastructure. This is being extended to 2023-24 and expanded to £37bn.

Local Government Finance Settlement 2019-20

Details of the Provisional Local Government Finance Settlement 2019-20 were published on 13 December 2018. It marked the start of a four-week consultation period. The Director of Finance & ICT submitted the Council's response to the Provisional Settlement ahead of the deadline for responses, which was 10 January 2019, following consultation with the Leader of the Council and Corporate Management Team. A copy is attached at Appendix Two. Details of the Final Local Government Finance Settlement were published on 29 January 2019.

On 17 December 2015, the Government announced details of the Provisional Local Government Finance Settlement 2016-17. Alongside the Settlement, was the offer of a four-year funding deal to local authorities, for the period 2016-17 to 2019-20, to allow them to plan ahead for full local retention of business rates, should they wish to take it up. The intention was that these multi-year settlements would provide funding certainty and stability to enable more proactive planning of service delivery and support strategic collaboration with local partners.

Those local authorities which expressed an interest in accepting the offer were required to provide an Efficiency Plan. The Council submitted its Efficiency Plan to Government in 2016, details of which were reported to Cabinet on 11 October 2016. Subsequently, the Government confirmed that the Council was formally part of the multi-year settlement deal.

The headlines from the Settlement are:

- No change to allocations in the four-year funding deal, except for the removal of negative Revenue Support Grant from the settlement through forgone business rate receipts, for those authorities affected.
- General expenditure precept threshold of 3%.
- Confirmation of the continuation of the Adult Social Care Precept of 2%.
- Following on from last year's announcement of the Government's aims to localise 75% of business rates from 2020-21 and to implement new needs assessment methodology, consultations launched on the future system design of Business Rates Retention and on Fair Funding Proposals.
- New 75% business rates retention pilots launched and continuation of 100% business rates retention pilots in devolution deal areas.
- Distribution of £180m surplus on the business rates retention levy account, which has occurred as a result of business rates growth; levy originally top-sliced from Revenue Support Grant.
- The methodology for the distribution of the New Homes Bonus to continue in its current format.
- Increase of £16m in Rural Service Delivery Grant to 2018-19 levels.
- Local authorities across England to receive a share of £56.5m to help support their preparations for European Union exit (Brexit) in 2018-19 and 2019-20.

Business Rates Retention

On 5 October 2015, the Government announced that it would allow local authorities to retain 100% of business rates income "by the end of the Parliament". This was planned to commence in the 2019-20 financial year. However, following the fall of the Local Government Finance Bill 2016-17, progress was halted.

The Government had published consultation papers in 2016 with regard to a move to 100% business rates retention setting out proposals as to how the scheme would operate. Further consultation documents were issued in 2017 which suggested that funding could be made available to combined authorities under devolution deals, could be delivered via the business rates system. This included funds for adult education, transport capital grants and the Local Growth Fund.

The Government has now confirmed that it has revised its aims and is pursuing a 75% business rates retention scheme by a planned implementation date of 2020-21. Business rates assessed can be subject to appeals, which could mean that some rates income receivable becomes repayable in the future.

Alongside this announcement, the Government published a further consultation as part of its Fair Funding Review. This consultation focuses on the measurement of relative needs with future technical papers to be focused on relative resources and transitional arrangements. The work is being divided into three closely related strands which are relative needs, relative resources and transitional arrangements. The implementation date for the Review was expected to be 2020-21. However, the latest indications are that the Review is behind schedule and that a new multi-year funding settlement will be delayed by at least one year.

Business Rates Pooling

Under the Business Rates Retention Scheme, local authorities are able to come together, on a voluntary basis, to pool their business rates, giving them scope to generate additional growth through collaborative effort and to smooth the impact of volatility in rates income across a wider economic area.

The Council along with the eight district/borough councils, the city council and the Fire and Rescue Authority submitted a proposal to Government for a 'Derbyshire' pool. Details were reported to Cabinet on 21 October 2014. Local authorities can withdraw from a designated pool, if after seeing the Provisional Local Government Finance Report, they no longer believe that pooling provides the opportunities they had previously thought. All members of the pool have agreed that the pool should proceed on the basis that the additional funding will provide an important enabler to drive forward economic growth and create a positive framework for investment across the county by improving business rates incentives and minimising the prospect of wasteful competition between authorities.

Business Rates Pilot

The Council participated in a 2018-19 business rates pilot, along with Derbyshire District and Borough Councils, the Derbyshire Fire and Rescue Service and Derby City Council, following a successful bid to become one of ten pilots. The pilot has generated additional one-off income in 2018-19 for the county of Derbyshire, over and above the business rates income received through the local government finance settlement. The Council's share of the additional business rates one-off income in 2018-19 was £16.481m, which has been transferred to Earmarked Reserves.

Of this income transferred to Earmarked Reserves, £4.889m is being held in respect of the Council's contribution to the D2 Business Rates Retention Programme for strategic investment, to support economic regeneration across the county and in Derby City, £6.876m will be used in managing the Council's budget, supporting services including children's social care, waste and recycling, promoting tourism, supporting community safety and 'safe and well' checks and £4.716m will be held in a business rates pool earmarked reserve, the use of which is still to be determined.

The Derby and Derbyshire Authorities Joint Committee for Economic Prosperity is the decision making board for allocation of funding to individual projects to support economic regeneration.

It should be noted that the 100% business rates retention pilot was for 2018-19 only. The Council, as part of a Derbyshire pool, bid to participate in a 75% business rates retention pilot for 2019-20, before a national 75% regime comes into force, planned for 2020-21. The aim of the pilots is to learn lessons to ensure that the transition to the new scheme in 2020-21 is as smooth as possible. Successful pilots were announced alongside the Local Government Provisional Settlement 2019-20. The Derbyshire pool was unsuccessful in its pilot bid. The Derbyshire business rates pool is continuing in its previous form and funding allocations have reverted back to those announced in the multi-year settlement for 2019-20.

Settlement Funding Assessment

Settlement Funding Assessment (SFA) is made up of Revenue Support Grant, Business Rates Top-Up (both of which are received directly from Government) and localised Business Rates, which are received directly from the district/ borough councils. As the Council was part of the 100% Business Rates Retention pilot in 2018-19, its Revenue Support Grant was foregone. Details of the allocations are summarised below:

	2018-19 allocations before 100% Business Rates Pilot £m	2018-19 allocations after Business Rates Pilot £m	2019-20 allocations £m
Revenue Support Grant	28.633	0.000	13.517
Business Rates Top-Up	91.454	43.036	93.370
Business Rates - Local	17.122	94.173	19.195
	137.209	**137.209**	**126.082**

- **Business Rates Top-Up**

Business Rates Top-Up increases in line with the Small Business Rates multiplier (based on the Retail Price Index as at September of the preceding financial year).

- **Business Rates – Locally Retained**

The figure for Local Business Rates shown in the table above includes the Council's estimate of its Derbyshire business rates 2019-20 pool gain of £1.500m, based on previous years' pool gains and the Government's estimate of growth; the final figure for growth was later provided by the billing authorities, which have until 31 January 2019 to the County Council with the final estimates used in setting the budget. The amount represents 49% of business rates collected locally. Any changes to the figure shown in Appendix One will be managed through the Risk Management Budget or Reserves.

New Homes Bonus (NHB)

The NHB grant was introduced in April 2011. The scheme is aimed at encouraging local authorities to grant planning permission for the building of new houses and then share in the additional revenue generated.

The Government has confirmed that the Council will receive an additional allocation of NHB in 2019-20 of £0.040m, making an in-year total allocation receivable in 2019-20 of £2.098m.

General Grant

Details of further grant allocations are set out in the table below:

	2018-19 £m	2019-20 £m
Improved Better Care Fund	24.906	31.055
Business Rates Capping*	12.807	6.364
Business Rates Retention Levy Account Surplus	0.000	1.704
Winter Pressures Grant	3.627	3.627
Social Care Support Grant	0.000	6.197
Adult Social Care Support Grant	2.267	0.000
Independent Living Fund	2.614	2.534
Extended Rights to Free Travel*	0.866	0.914
Local Reform and Community Voices Grant**	0.511	0.511
War Pensions Scheme Disregard**	0.172	0.172
Prison Services**	0.105	0.105
Lead Local Flood Authority	0.055	0.059
Moderation Phonics Grant**	0.040	0.040
Total	**47.970**	**53.282**

* 2019-20 figure updated from Revenue Budget Report following announcement/release of allocations.

** 2019-20 figure is an estimate as details of allocations have not been released.

- **Improved Better Care Fund (iBCF)** – the Comprehensive Spending Review 2015 announced that £1.5bn would be added to the ring-fenced Better Care Fund progressively from 2017-18. This was later increased by £2bn, at Spring Budget 2017, allocated over a three year period to 2019-20, reaching £1.837bn in 2019-20 nationally.

- **Business Rates Capping** – compensates authorities for their individual reductions in non-domestic rating income following recent decisions by Government to change the rate relief for some organisations. The Government has confirmed that compensation will be provided in 2019-20 by means of a Section 31 grant. The Revenue Budget report 2019-20 contained an estimate of the grant from the billing authorities. The amount of the grant for 2019-20 has since been confirmed in a determination from Government and this has been updated in the table above.

- **Business Rates Retention Levy Account Surplus** – distribution of surplus on the 2018-19 business rates retention levy account as a result of business rates growth, originally top-sliced from Revenue Support Grant.

- **Winter Pressures Grant** – the Autumn Budget 2018 announced that £240m of additional funding would be made available for councils to spend on adult social care services, in both 2018-19 and 2019-20, to help alleviate NHS winter pressures. In 2019-20 the funding is required to be pooled into the Better Care Fund via the iBCF and reported on through the Better Care Fund.

- **Social Care Support Grant** - the Autumn Budget 2018 also announced that £410m of additional funding would be made available for councils to spend on adult and children's social care services in 2019-20. Although the grant is not ring-fenced there is an expectation that councils will use the funding to meet pressures on those services. The allocation of the grant between adult and children's social care is not prescribed.
- **Adult Social Care Support Grant** – the Final Local Government Finance Settlement 2018-19 announced that a further £150m would be paid as a one-off grant to local authorities who have adult social care responsibilities, to build on their progress so far in supporting sustainable local care markets.
- **Independent Living Fund (ILF)** – responsibility for administering the ILF was devolved to local authorities in England in 2015. The Government committed to providing non ring-fenced funding to local authorities until 2019-20.
- **Extended Rights to Free Travel** – funding to support extended rights to free school travel.
- **Local Reform and Community Voices Grant** – this grant is comprised of funding for Deprivation of Liberty Safeguards, local Healthwatch and Independent Complaints Advisory Services.
- **War Pensions Scheme Disregard** - compensates authorities for disregarding, for the purposes of social care charging, most payments made under the War Pension Scheme.
- **Prison Services** – funding for social care in prisons.
- **Lead Local Flood Authority** – to carry out duties under the Flood and Water Management Act 2010 and for the role as statutory consultee on surface water for major development.
- **Moderation Phonics Grant** – funding for moderation and phonics.

Private Finance Initiative Grant (PFI)

The PFI grant is received to support expenditure which is incurred in meeting payments to contractors for the capital element of school building projects previously undertaken through PFI and similar funding arrangements. These funding arrangements require payments to be made over a 25 year period. The capital payments due on these schemes will end in three phases between 2029 and 2035. The Council's allocation for 2019-20 is £10.504m.

Ring Fenced Grants

- **Dedicated Schools Grant (DSG)**

  Grant is paid to local authorities to provide school, high needs, early years and central schools block budgets. Local authorities are responsible for determining the allocation of grant in conjunction with their local Schools Forum. Local authorities are responsible for allocating funding to schools and academies, high needs and early years providers in accordance with their local funding formulae. Details of DSG funding were considered by Cabinet on 31 January 2019.

- **Public Health**

  Public Health expenditure is funded from a ring-fenced grant. The budget is largely spent on drug and alcohol treatment services, sexual health services, health protection and promoting activities to tackle smoking and obesity and to improve children's health. The Council's allocation for 2019-20 is £39.477m. This represents a reduction of 2.64% compared to the 2018-19 allocation. The Government has confirmed that the ring-fence and grant conditions will remain in place until 31 March 2020, at which point it is expected that the grant will be replaced by retained business rates.

- **Better Care Fund**

  The Better Care Fund (BCF) was announced in June 2013 as part of the 2013 Spending Round. It provides an opportunity to transform local services so that people are provided with better integrated health and social care. The BCF will support the aim of providing people with the right care at the right place at the right time. This will build on the work which the Clinical Commissioning Groups (CCGs) and the Council are already doing, for example as part of integrated care initiatives, joint working and on understanding of patient/service user experiences.

  The allocation for Derbyshire as a whole in 2019-20 has yet to be announced but it is expected to be at least at the 2018-19 level of £95.558m, which was split as follows:

	2018-19 £m
Tameside	2.295
Erewash	6.587
Hardwick	7.528
North Derbyshire	19.919
Southern Derbyshire	18.112
CCG minimum contribution	**54.441**
CCG additional contribution	
Wheelchairs	0.503
ICES equipment	1.833
CMHT	2.372
Community Nursing	3.552
	8.260
DCC additional contribution	
ICES equipment	1.500
DFG	6.451
Improved Better Care Fund	24.906
	95.558

The funding can be used to improve health outcomes for clients and their carers. Derbyshire will look to invest in services jointly commissioned with health services, which include reablement, seven day services, better information sharing, joint assessments and reducing the impact on the acute sector. The resources for reducing the impact on the acute sector are performance related and will not be paid to the acute service if the targets are not achieved.

The BCF has national metrics underpinning its performance, which will be used to measure success, include reducing admissions to residential care homes, effectiveness of reablement out of hospitals, delayed transfer of care, avoidable emergency admissions and patient/service user experience.

This funding system presents opportunities and risks to the Council, these are the subject of detailed negotiation with the CCGs. The additional funding will help to bridge the funding gap which will be left by the annual reduction in Revenue Support Grant.

Fees and Charges

Departments have continued to look for ways of working more efficiently and effectively to cut costs or generate additional income and set aside cash for future years, when further budget reductions will be needed. The Council receives income in respect of a range of fees, charges and contributions for different services, including residential care, adult education courses and library fines. The Council has a Corporate Charging Policy to help standardise the approach to charging for services. The income generated from fees and charges (excluding residential care), referred to in the Corporate Charging Policy, which was updated and reported to Cabinet in December 2018, was £59m.

DERBYSHIRE ECONOMY

The Derbyshire Local Economic Assessment 2019 (LEA) shows that the county's economy contributes £15.2bn to the national economy and has grown by 6.4% over the last five years. Locally, productivity levels have grown at a faster rate than nationally, helping to narrow the gap between Derbyshire and England.

Derbyshire has more than 29,000 businesses that employ around 290,300 people. The area has significant strengths in the advanced manufacturing sector, with a number of world class companies such as Toyota, Rolls Royce, JCB and Bombardier choosing to locate and invest in the county and its surrounding area. Although Derbyshire has fewer new businesses starting up than England, the survival rate of local businesses continues to be higher.

The employment profile of Derbyshire is significantly different from that of England. Locally, manufacturing remains a key sector, accounting for nearly a fifth of all employment, more than double the national rate. The health and social care sector is also of significance to the local economy, employing 39,300 people along with the visitor economy that supports 23,400 full-time equivalent jobs.

Locally the visitor economy in Derbyshire makes a significant contribution to economic performance, with over 33m visitors in 2017, generating £1.7bn. Over the last five years, the sector has grown considerably, with a rise of nearly three million visitors, an additional £140m in visitor spend and a 4.5% rise in employment levels in the sector.

Derbyshire is home to around 796,000 people and by 2041 the county's population is estimated to have grown by 8.0%. In addition to this, the county is forecast to have fewer people of working age and an increasingly ageing population.

The county has high levels of labour market participation and continues to have an employment rate well above the national average. The latest employment rate for Derbyshire stood at 78.8%, over 3 percentage points higher than the England rate. This is one of the highest levels in recent years, with the last five years showing a general upward trend both locally and nationally, reflecting the improving economic picture.

Unemployment rates in the county remain lower than across England, with the claimant count unemployment rate of 2.1% in May 2019 being 0.6% points below that nationally. However, there are areas across the county where the unemployment rate is more than double the national average. Over 60.0% of all unemployed claimants in Derbyshire have been out of work for more than a year, although this remains below the national average. The youth unemployment rate in Derbyshire is 2.9%, the same as that nationally.

Derbyshire is an attractive and affordable place to live. In March 2019 the average house price in the county was £177,000. Although this is around £66,000 lower than the England average, prices vary significantly across the county, with affordability being an issue in the more rural areas of Derbyshire.

FIVE YEAR FINANCIAL PLAN

The following key assumptions have been made when developing the Plan.

Income:

Business Rates

This is the Council's share of Business Rates income under the Business Rates Retention Scheme. For 2019-20, the figure is based on 50% retention of Business Rates. Despite the Government's commitment to introduce a 75% scheme by 2020-21, it is difficult to estimate the funding under a revised scheme, as the details of the scheme will be subject to consultation over the coming months and indications are that the scheme may be delayed. It assumes 2% growth year-on-year.

Top-Up

This is a grant received from Government under the Business Rates Retention Scheme. It assumes that the amount will increase with the Government's target CPI inflation year-on-year.

Revenue Support Grant

Under the Government's austerity measures, Revenue Support Grant is expected to cease in 2020-21, although this may be extended for one year, given the delay in the Government’s funding review outcome.

Improved Better Care Fund (BCF)

Announced as part of the 2013 Spending Review, aimed at transforming local services so that people are provided with better integrated health and social care. The improved BCF supports the aim of providing people with the right care at the right place at the right time. The Spending Review 2015 announced additional funding for the period 2017-18 to 2019-20, with the Spring Budget 2017 announcing further support over the same period.

New Homes Bonus

Introduced in April 2011. The scheme is aimed at encouraging local authorities to grant planning permission for the building of new houses and then share in the additional revenue generated.

General Grant

In 2019-20, the amount of general grant is based on the following allocations at the time of the Revenue Budget Report 2019-20:

	2019-20 £m
Business Rates Capping	1.247
Business Rates Retention Levy Account Surplus	1.704
Social Care Support Grant	6.197
Extended Rights to Free Travel	0.866
Local Reform and Community Voices Grant	0.511
War Pensions Scheme Disregard	0.172
Prison Services	0.105
Lead Local Flood Authority	0.059
Moderation Phonics Grant	0.040
Total	**10.901**

* 2019-20 later determinations are documented on page 14. The Plan anticipates General Grant income in respect of the above grants of £10.901m. This additional one off income and expenditure does not materially change the 2019-20 Five Year Financial Plan position at the end of the year.

PFI Grant

This grant is to support expenditure which is incurred in meeting payments to contractors for the capital element of projects undertaken through the Private Finance Initiative.

Council Tax

An increase of 3.99% has been agreed for 2019-20, with a freeze in Council Tax assumed for two years from 2020-21 and a 2% increase in Council Tax assumed for two years from 2022-23.

Taxbase increases of 1.5% per annum are assumed from 2020-21, with a collection fund surplus projected of £2m each year.

Use of Balances

There is a planned use of Budget Management Earmarked Reserve and General Reserve to support one-off pressures over the medium term.

Expenditure:

Price Inflation

There will be no increase to departmental budgets for specific price rises, other than business rates and care home fees, as inflation (the Consumer Price Index) is forecast to remain low over the medium term.

There will not be budget allocations for utility costs as the Council procures its gas and electricity through the integrated Pan Government Energy Programme and the Government Procurement Service which has resulted in prices remaining very competitive against other providers because of the purchasing power of the organisation.

For 2019-20 only it has been agreed that no Adult Social Care budget allocation will be made to reflect the annual increase in care home fees. In 2018-19 the allocation was £1.800m. It is anticipated that allocations will be made to reflect increases in care home fees from 2020-21 for the rest of the period of the Plan.

Pay Award

The award for 2019-20 has been agreed at a general offer of 2%. For 2020-21 onwards, the Plan assumes a general 2% pay award for each year of the Plan. Any amount over and above 2% will have to be met from within existing budgets.

Contingency for Price Increases

The Council maintains a Contingency Budget which has been used to help manage pay and price increases over which there is some uncertainty, details for 2019-20 are set out below.

- **Pay Award - £3.907m**

  At the time of approval of the 2019-20 budget, local authorities were negotiating with unions on the offer for 2019-20. The Council's last Plan, published in September 2018, assumed a pay award of 2% and a general offer of a 2% increase was assumed to be a realistic estimate in the 2019-20 budget. This equated to £3.907m, which is a contingency amount of £7.125m less the calculated Adult Social Care element of £3.218m, for which it has been agreed that no allocation will be made in 2019-20. Following final agreement of a general offer of 2%, the £3.907m budget is being allocated to departments.

- **General Data Protection Regulation (GDPR) - £1.000m**

  New GDPR obligations were introduced in 2018-19 and imposed a number of new requirements on the Council when dealing with personal data. Failure to comply with these new requirements, or being able to demonstrate that suitable data protection controls are in place, could lead to the Council being subject to significant financial penalties. The burdens of GDPR place a short term pressure on the Council. This is the estimated one-off cost of funding GDPR work that will be required across the Council in 2019-20. Departments are submitting bids for this funding.

- **Street Lighting Energy - £0.215m**

  This is the estimated ongoing increase in street lighting energy costs.

External Debt Charges and Minimum Revenue Provision

This represents the interest payable on the Council's outstanding debt.
The Council has paid off a number of loans, which were used to support the Council's capital programme, in recent years and has not undertaken further borrowing. In 2018-19, the year before the period of this Plan, this provided the opportunity to reduce the ongoing budget by £8.500m, to reflect the reduction in interest charges. A further reduction, of £1.500m, is planned in 2021-22.

The Minimum Revenue Provision (MRP), is a prudent amount of revenue set aside to contribute towards capital expenditure which has been financed by borrowing or credit arrangements. The Council reviewed its MRP Policy in 2016-17, in a report to Cabinet on 22 November 2016. It was considered that future savings could be achieved without compromising the future prudent provision made by the Council. In conjunction with the policy being reviewed, the level of the Capital Adjustment Account (CAA) reserve in to which the money is set aside has been reviewed.

The amount of MRP that has been transferred over the last ten years to the CAA reserve is in excess of £171m, however the actual amount of loan repayments during that time is significantly lower, at £121.5m. With the Council not undertaking any new borrowing within the last ten years, this indicates that the Council's CAA reserve contains in excess of what is required to ensure the Council can repay its debt.

Whilst the Council will continue to set aside a prudent amount of revenue for MRP each year, it will ensure that its future annual provision is appropriate. The base budget is profiled to return to its 2017-18 level, after one-off reductions to adjust the amount held in the CAA reserve, by 2021-22. The Council will however continue to review its MRP policy annually to ensure in future years that adequate/prudent provisions are still being made.

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Council is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. The Council will monitor this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2019-20, with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

In addition, the Council may borrow short-term to cover cash flow shortages where it is advantageous to do so.

Interest Receipts - £5.948m

The Bank of England increased the base rate of interest from 0.50% to 0.75% at its meeting on 2 August 2018. The 2019-20 budget assumes that the Council will earn additional income of £1.000m by utilising a range of risk assessed investment vehicles in order to increase its income from external investments.

On-going Service Pressures

A number of service pressures have been identified by departments and there are planned allocations to base budgets for social care over the medium term to address increased demand for services. In addition, there are allocations for Council priorities such as waste and public transport.

One-Off Pressures

There is a planned use of one-off General Grant and the Budget Management Earmarked Reserve over the medium term to support one-off expenditure. Planned allocations have been made for social care, highways maintenance and Community Managed Libraries. A further £1m contingency one-off will also be funded from the Budget Management Earmarked Reserve.

FIVE YEAR FINANCIAL PLAN for 2019-20 to 2023-24

	2019-20	2020-21	2021-22	2022-23	2023-24
	£m	£m	£m	£m	£m
FUNDING					
Business Rates and Government Grants					
Business Rates	19.195	19.579	19.970	20.370	20.777
Top-Up	93.370	96.171	99.056	102.028	105.089
Revenue Support Grant	13.517	0.000	0.000	0.000	0.000
Better Care Fund	25.928	25.900	25.900	25.900	25.900
additional improved Better Care Fund	5.126	0.000	0.000	0.000	0.000
New Homes Bonus	2.098	2.300	2.300	2.400	2.400
General Grant	10.901	3.000	3.000	3.000	3.000
PFI Grant	10.504	10.504	10.504	10.504	10.504
Sub Total	**180.639**	**157.454**	**160.731**	**164.202**	**167.670**
Council Tax	329.431	334.003	338.983	350.879	363.194
Use of Balances	9.462	3.364	3.000	2.000	2.000
TOTAL FUNDING	**519.532**	**494.821**	**502.714**	**517.080**	**532.864**
EXPENDITURE:					
Base Budget	491.732	506.205	491.457	499.714	515.080
Price Inflation	0.040	2.000	2.000	2.000	2.000
Living Wage	0.000	1.000	1.000	0.000	0.000
Pay Award (including Living Wage)	3.907	7.676	7.829	7.985	8.145
Contingency for Price Increases	0.215	0.000	0.000	0.000	0.000
Debt Charges	0.000	0.000	-1.500	0.000	0.000
Interest Receipts	-1.000	0.000	0.000	0.000	0.000
MRP adjustment	2.000	1.000	7.000	0.000	0.000
On-going Service Pressures (see below)	23.460	7.000	7.300	6.000	6.000
Risk Management Budget	-0.756	0.000	0.000	0.000	0.000
	519.598	**524.881**	**515.086**	**515.699**	**531.225**
One-off expenditure:					
Risk Management	0.000	0.000	0.000	0.000	0.000
One-off revenue support	12.327	3.364	2.000	2.000	2.000
Contingency for other one-off revenue bids	1.000	0.000	0.000	0.000	0.000
Elections	0.000	0.000	1.000	0.000	0.000
	13.327	**3.364**	**3.000**	**2.000**	**2.000**
Budget cuts required	**-13.393**	**-33.424**	**-15.372**	**-0.618**	**-0.361**
TOTAL EXPENDITURE	**519.532**	**494.821**	**502.714**	**517.080**	**532.864**
Ongoing base budget	**506.205**	**491.457**	**499.714**	**515.080**	**530.864**

Assumptions	2019-20	2020-21	2021-22	2022-23	2023-24
Price Inflation	2.00%	2.00%	2.10%	2.10%	2.00%
Pay Award	2.00%	2.00%	2.00%	2.00%	2.00%
Business Rate Growth	-79.62%	2.00%	2.00%	2.00%	2.00%
Top Up RPI	116.98%	3.00%	3.00%	3.00%	3.00%
Council Tax Increase	3.99%	0.00%	0.00%	2.00%	2.00%
Taxbase Increase	1.17%	1.50%	1.50%	1.50%	1.50%
Taxbase	247,261	250,970	254,734	258,555	262,434
Collection Fund Position (£m)	2.333	2.000	2.000	2.000	2.000
Council Tax (£/Band D)	1,322.88	1,322.88	1,322.88	1,349.34	1,376.32

Ongoing Service Pressures	2019-20	2020-21	2021-22	2022-23	2023-24
	£m	£m	£m	£m	£m
Adult Care Price Increases and Demographics	12.440	5.000	5.000	5.000	5.000
Transforming Care Programme	0.456	0.000	0.000	0.000	0.000
Payments to Carers	1.097	0.000	0.000	0.000	0.000
Transport Costs (SEN)	1.000	0.000	0.000	0.000	0.000
Pupil Referral Units	0.450	0.000	0.000	0.000	0.000
Children's Homes	0.450	0.000	0.000	0.000	0.000
SEND Services	0.275	0.000	0.000	0.000	0.000
Foster Carers	0.060	0.000	0.000	0.000	0.000
Public Transport	0.500	-0.300	0.000	0.000	0.000
Pension Fund	0.000	1.000	0.000	0.000	1.000
Children's Social Care Demographics	3.000	0.000	1.000	1.000	0.000
Children's Social Work Remodelling	1.300	1.300	1.300	0.000	0.000
Thriving Communities	0.368	0.000	0.000	0.000	0.000
Coroners	0.270	0.000	0.000	0.000	0.000
ICT Strategy	0.200	0.000	0.000	0.000	0.000
Enterprising Council	0.094	0.000	0.000	0.000	0.000
Waste Treatment and Disposal	1.500	0.000	0.000	0.000	0.000
	23.460	**7.000**	**7.300**	**6.000**	**6.000**

One-Off Pressures	2019-20	2020-21	2021-22	2022-23	2023-24
	£m	£m	£m	£m	£m
Highways Maintenance	1.000	0.000	0.000	0.000	0.000
Children in Care Proceedings	1.050	0.000	0.000	0.000	0.000
Mobile Working	0.260	0.000	0.000	0.000	0.000
Complex Cases	0.250	0.000	0.000	0.000	0.000
Participation	0.080	0.000	0.000	0.000	0.000
Children's Social Work Remodelling	2.600	1.300	0.000	0.000	0.000
Children's Social Care Demographics	1.000	2.000	0.000	0.000	0.000
Care Leavers	0.402	0.000	0.000	0.000	0.000
Children in Care Placements	4.000	0.000	0.000	0.000	0.000
Child Protection	0.105	0.000	0.000	0.000	0.000
Community Managed Libraries	0.742	0.000	0.000	0.000	0.000
Child Care Solicitors	0.300	0.000	0.000	0.000	0.000
Enterprising Council	0.150	0.000	0.000	0.000	0.000
Learning Management System	0.083	0.000	0.000	0.000	0.000
HR Consultant SAP Development	0.045	0.000	0.000	0.000	0.000
Water Body	0.100	0.000	0.000	0.000	0.000
Trading Standards Older People Support	0.048	0.000	0.000	0.000	0.000
Street Lighting	0.048	0.000	0.000	0.000	0.000
HS2 Co-Ordination Officer	0.064	0.064	0.000	0.000	0.000
	12.327	**3.364**	**0.000**	**0.000**	**0.000**

CAPITAL PROGRAMME

The Capital Programme is developed following an assessment of capital bids received from each of the services across the Council.

The capital expenditure recommendations are determined from a detailed assessment of service department proposals for capital investment, utilising, as in previous years, a “scoring” mechanism to reflect the importance of each proposal in meeting a series of objectives, linking together the Capital Strategy, Asset Management and the Council Plan. The impact of capital expenditure and associated borrowing is spread over several years and therefore it is important to consider the effect of any proposals in both the forthcoming and future financial years.

The Capital Strategy firmly places decisions around borrowing in the context of the overall longer term financial position of the Council. It provides improved links between the revenue and capital budgets, whilst giving consideration to both risk and reward and the impact on the achievement of priority outcomes. This produces a programme that is financially affordable, prudent and sustainable and integrated with the Five Year Financial Plan. It gives due consideration to the impact of investment decisions on revenue budgets, beyond the completion of the capital scheme and funding.

Option appraisals are carried out, which include examinations of the ongoing revenue implications of either carrying out, or failing to carry out, a specific scheme. It is regarded as imperative that such implications form a full part of the Council’s expenditure planning process.

As the Council’s Capital Strategy is integrated with the Corporate Asset Management Plan process for service accommodation needs, this allows for the on-going assessment/ challenge of asset utilisation and building condition, with the key objective being to hold or provide only those assets that are necessary to meet service priorities.

Details of the actual and estimated figures Capital Programme figures were reported to Council on 6 February 2019.

The Capital Strategy has regard to the availability of finance. This continues to be provided mainly by traditional methods, which include:

- Borrowing
- Grants & Contributions
- Revenue Funding
- Capital Receipts

Whenever possible, capital schemes financed from prudential borrowing will be in line with the invest to save principle; that is, the scheme is required to make a return, or generate revenue savings, sufficient to cover its capital financing costs. However, not all capital schemes funded through prudential borrowing will generate such a return and in such cases, the resulting capital financing implications are a cost to the revenue budget.

The Capital Programme is subject to regular review, with monitoring reports submitted to Cabinet and the Capital Strategy Statement itself being approved annually at Full Council.

RISKS

The Plan shows that the Council is required to make substantial budget savings over the medium term in order to maintain a balanced budget. If the target savings cannot be achieved a drawdown on the General Reserve will be required to balance the budget. The Plan projects a long-term balance on General Reserve of between £14m and £47m over this period.

The Council has identified a programme of budget savings required over the medium-term. Procedures are in place to ensure that achievement against the targets is regularly monitored and reported to Members. The Revenue Budget 2019-20 exemplified that of a target of £63.168m, total savings of £30m had been identified by departments over the five years.

Savings identified in respect of 2019-20, totalling £10.542m, were included in detail in the Revenue Budget Report 2019-20, reported to Council in February 2019. Of these savings, £10.011m are new savings against base budget. The shortfall in savings targets for Children's Services and Economy, Transport and Environment will be met from the Budget Management Earmarked Reserve. This is in agreement with the principles of meeting savings shortfalls with one-off support as agreed in the Revenue Budget Reports 2017-18 and 2018-19. The Economy, Transport and Environment department has allocated its 2019-20 savings shortfall to the highways revenue budget but the 2019-20 highways budget will remain the same because of this one-off funding from reserves.

The table below summarises the 2019-20 savings target, identified savings and the level of achievement for each department at the time of the Revenue Budget Report 2019-20.

	Plan Target 2019-20 £m	Budget Savings Identified £m	Annual Budget Shortfall/ (Over-achievement) £m
Adult Care	5.732	5.732	0.000
Children's Services	3.013	1.631*	1.382
Economy, Transport and Environment	2.666	0.666*	2.000
Commissioning, Communities and Policy	1.982	1.982	0.000
Total	**13.393**	**10.011**	**3.382**

* - Children's Services savings of £2.091m for 2019-20. Of these savings, £1.631m are new savings against base budget and £0.460m are savings committed to in previous years.
 - Economy, Transport and Environment savings of £0.737m for 2019-20. Of these savings, £0.666m are new savings against base budget and £0.071m are savings committed to in previous years.

Children's Services and Economy, Transport and Environment will still be required to achieve their savings targets for 2019-20 but the use of earmarked reserves provides some flexibility to plan and achieve the target. Base budgets will need to be in balance by 1 April 2020.

In the six months since the Revenue Budget 2019-20 was compiled, departments have been reassessing their identified savings, with a view to bridging the savings shortfall. As identified above, an annual shortfall of £3.382m remains from the 2019-20 budget savings target of £13.393m. Reassessed details of identified annual budget savings for 2020-21 to 2023-24 are shown at Appendix Two. These identified budget savings comprise £44.792m of departmental annual budget savings and £8.000m of cross-departmental annual budget savings. Overall, a shortfall of £0.365m identified annual budget savings, against the £63.168m budget savings target, remains over the five years of the Plan.

Of the budget savings proposals identified, £6.017m (13%) have been categorised as having a Green RAG status, £33.134m (74%) have been categorised as Amber and £5.641m (13%) have been categorised as Red.

Adult Care budget savings proposals include 95% with an Amber RAG status, 4% Red and 1% Green. Children's Services budget savings proposals include 39% with an Amber RAG status, 37% Green and 24% Red. Economy, Transport and Environment budget savings proposals include 88% with an Amber RAG status, 7% Green and 5% Red. Commissioning, Communities and Policy budget savings proposals include 35% with a Green RAG status, 35% Red and 30% Amber.

The table below summarises the budget savings target for the period 2020-21 to 2023-24 and compares it to departments' reassessment of identified annual budget savings against this target, before cross-departmental annual budget savings are considered.

	Plan Target 2020-21 to 2023-24 £m	**Budget Savings Identified £m**	**Annual Budget Shortfall/ (Over-achievement) £m**
Adult Care	21.303	22.334	(1.031)
Children's Services	12.580	5.308	7.272
Economy, Transport and Environment	11.910	8.329	3.581
Commissioning, Communities and Policy	7.364	8.821	(1.457)
Total	**53.157*^**	**44.792**	**8.365**

*Appendix Two also shows that additional departmental budget savings beyond 2023-24 have been identified totalling £0.240m.

^A shortfall of £3.382m remains from the 2019-20 target of £13.393m and has been included with the 2020-21 to 2023-24 budget savings targets.

There is an overall cumulative budget shortfall of £39.052m by the end of 2023-24, comparing the profile of budget savings required over the period of the Plan to the profile of budget savings identified. It is anticipated that this shortfall will be funded from general reserves.

Clearly the timescale of savings is important. The majority of any savings need to be achieved in the period up to 31 March 2022. This reflects two variables: the final reductions from Government in Revenue Support Grant and the desire by the current administration to have a 0% Council Tax rise in both 2020-21 and 2021-22 as well as deciding not to take the full increase possible in 2019-20.

The Council has robust procedures in place to ensure that mitigation against key financial risks is considered. These include:

- Regular review and update of the financial risk register which is reported to senior managers and Members;
- Review of General and Earmarked Reserves at least annually, including projections for the General Reserve balance over the medium term;
- Budget monitoring reports to Members which includes the latest budget position, one-off factors, such as extra funding, supporting the budget, risks that could impact on the outturn position, progress against budget savings targets and the level of departmental Earmarked Reserves;
- Reports to Audit Committee providing updates of the latest budget monitoring arrangements;
- Consultation with Improvement and Scrutiny Committee on the latest Five Year Financial Plan;
- Integrated Risk Management Strategy, with strategic risks facing the Council, along with mitigation in place to ensure they are manageable, reported to the Audit Committee.

In developing the Plan a number of assumptions have been made. There are a number of risks which are highlighted below.

- The introduction of 100% Business Rates Retention is assumed to be fiscally neutral to the Council. The Provisional Local Government Finance Settlement announced that the Government would move towards full 75% business rates retention for local authorities by 2020-21, with 100% retention to follow in later years. The four-year multi-year settlement announced in 2016-17 provided some certainty for those authorities who agreed to sign up to the offer, however there is now growing uncertainty in the sector regarding the funding levels beyond this period. There remains a period of consultation between local government and central government over the coming months to establish a distribution methodology that is fit for purpose, however, local authorities are struggling to set medium term financial plans due to this element of uncertainty.
- The existing allocations of the improved Better Care Fund continue to be paid beyond 2019-20. If the funding ceases beyond 2019-20, local authorities will experience a ‘cliff edge’ funding effect that will significantly impact on the delivery of adult social care services;

- There continues to be a consistent rise in business rates growth in the county, however a change in the economic life-cycle or a significant loss of business in the region will impact on the level of business rates income;
- Inflationary increases are managed within existing budgets. The Plan assumes that inflation will remain at the Government's target of 2% over the medium term;
- A general 2% pay award is assumed for each year of the Plan. The award for 2019-20 has been agreed. Any amount over and above 2% will have to be met from within existing budgets;
- Impact on employer pension contributions if an estimate of recent judgements are reflected in the upcoming actuarial valuation.
- Investment income will increase over the next year on the basis that the base rate of interest will increase. It is assumed that interest rates will rise over the medium term on the basis that the economy will grow following the UK's exit from the European Union.

Further significant risks are illustrated below.

Business Rates

The introduction of the Business Rates Retention Scheme in April 2013 have increased the level of financial risk for local authorities as they are now exposed to both the impact of appeals against rate valuations and avoidance of the tax. Whilst some appeals will go in the favour of local authorities, the uncertainty of the outcome and lack of knowledge about the timing of the decision mean that councils are forced to accept a significant, unpredictable financial risk, impacting on the availability of funding for services.

Other general risks have been identified, which need to be managed effectively. These are:

- the impact of Business Rates income from economic growth rates across the county;
- the district/borough councils effectiveness in the collection of Council Tax owed;
- deficits of the collection fund as a result of reduced collection rates for both Council Tax and business rates;
- uncertainty around the level of business rates appeals; and
- current economic conditions including inflation levels, interest rates, reduced income from fees and charges.

Cost Pressures

There continues to be an increased demand for services, leading to significant cost pressures in providing essential services such as social care, highways maintenance, public transport and waste.

The focus for support from Council resources is likely to shift towards Safeguarding Services for Children as the improved Better Care Fund and additional precept help to alleviate pressures in Adult Care.

The Council's Senior Members and Officers have lobbied Derbyshire MP's regarding improving funding for the Council and have subsequently met with the Secretary of State for Housing, Communities and Local Government to further promote the need for funding reform.

Children's Social Care

The Council, along with other local authorities in the country, has expressed concern over the cost pressures associated with the provision of children's social care. Many local authorities and the Local Government Association have urged Government to provide additional funding for the service.

Recent analysis illustrates rising demand for children's services nationally, including:

- an increase of 116% in the number of early help assessments completed between 2013 and 2018, with a 78% increase in initial contacts in the last ten years and a 159% increase in the number of Section 47 enquiries in the same ten year period;
- an increase in the average spend for each Looked After Child from £33,078 in 2012 to £39,099 in 2016, this increase continues; and
- an increase in total spending on residential care for Looked After Children, from £0.99 billion in 2012 to £1.10 billion in 2016, with further pressures predicted.

These pressures have resulted in a number of authorities being left with little choice but to divert funding towards crisis intervention activities, rather than preventative services. The national picture is being reflected in Derbyshire, with substantial strain placed on the children's social care budget. The Children's Services budget overspent by £5.5 million in 2016-17, by £6.4m in 2017-18 and has overspent by £4.2m in 2018-19, despite local investment in children's social care services. Increased demand for services in Derbyshire is highlighted below:

- Children subject to a child protection plan – in 2010-11, there were 554 children that were subject to a child protection plan in Derbyshire (a rate of 35 children per 10,000 population). By the end of 2015-16 this had risen to 738, being 48 children per 10,000 population. This is higher than the England rate of 43 per 10,000 population and higher than the rate of the Council's statistical neighbour benchmarking group, of 41 children per 10,000 population. Since 2015-16, numbers have increased, to an all-time high at the end of 2017-18 in excess of 900 children.
- Special Guardianship Orders (SGO) – the number of children subject to an order has increased year-on-year, from 141 in 2012-13 to 370 in 2016-17. The payments to SGO carers and Child Arrangement Order holders is in itself forecast to create a budget pressure in excess of £1 million during 2019-20.
- Children in Care – whilst the numbers of children in care decreased up to 2015-16, there has been a 20% increase in numbers since that time, with an increase of 130 children over a two year period. The cost of placements for children in care is forecast to create a £4 million budget pressure in 2019-20 for the Council.

- Children with additional needs – the number of children in Derbyshire schools with complex educational needs is estimated to have risen by approximately 30% since 2004. The proportion of pupils with statements or Education Health and Care Plans (3%) has increased since 2010-11 and is higher than averages for England and our statistical neighbour group, both of which have remained stable (2.8%). The proportion of pupils with Special Educational Needs (SEN) support has reduced since 2010-11 but at a slower rate than England and our statistical neighbour group.

Schools

Whilst expenditure on school related activity would normally be expected to be met from within the allocated Dedicated Schools Grant (DSG), there are some school based pressures which could fall to the Council's General Reserve to fund:

- The High Needs Block is a part of the DSG which is allocated to local authorities to spend on provision for children and young people with special educational needs and disabilities from their early years to age 25. Over the life of the Plan, it is expected that the baseline spend on such provision will exceed the allocation from Government by around £3.5 million. Whilst there is some one-off funding still available to meet this shortfall it is likely that between £5 million and £10 million may need to be found from the Council's Reserves. The shortfall on Higher Needs funding has been a key part of the Council's lobbying of MPs, the Secretary of State at MHCLG and Government generally.
- Deficit balances that exist at the point a school becomes an academy may be left with the Council to fund. This would be the case for "sponsored" academies. Sponsored academies are those where conversion is as a result of either intervention or where the school is not considered to be strong enough without the aid of a sponsor.

New Waste Treatment Facility

The Council and Derby City Council remain engaged in a project to build a New Waste Treatment Facility (NWTF) in Sinfin, Derby, to deal with waste that residents in Derby and Derbyshire do not recycle. The facility, which was due to open in 2017, was being built on the councils' behalf by Resource Recovery Solutions (Derbyshire) Ltd (RRS), which is a partnership between national construction firm Interserve, which was also building the plant, and waste management company Renewi. However, the contract with RRS was terminated on 2 August 2019, following the issuing of a legal notice by the banks funding the project. This legal notice – called a "No Liquid Market" notice – brings the contract to an end 14 days after being served. The councils did not dispute the notice.

The termination of the contract means that the facility will temporarily cease to accept waste. However the task of building and operating a gasification waste treatment facility in Sinfin will continue.

Contingency measures have been put in place by the councils to make sure waste that residents cannot recycle or choose not to recycle continues to be dealt with, and that recycling centres and waste transfer stations continue to operate. These services will continue to be run by waste management company Renewi, under a new two-year contract.

In the immediate future, work will continue on the facility to determine its condition and capability. This work will also be carried out by Renewi and will allow the councils to ascertain what measures need to be in place for the facility to become fully operational.

Funding for the facility had been loaned to RRS by the UK Green Infrastructure Platform and three leading international banks; Sumitomo Mitsui Banking Corporation and Shinsei Bank from Japan and Bayerische Landesbank from Germany. The councils will now enter negotiations to pay the banks an “estimated fair value” for the plant that will be worked up by an independent expert, taking into account all of the costs of rectifying ongoing issues at the plant, and the costs of providing the services to meet the agreed contract standards.

In light of the significant uncertainty regarding the likely actions of all the parties involved with the project, the councils are planning on the basis of all scenarios.

RESERVES

The Council has in place a Reserves Policy which sets out the framework within which decisions will be made regarding the level of reserves. In line with this framework the balance and level of reserves are regularly monitored to ensure they reflect a level adequate to manage the risks of the Council. This covers both the General Reserve and Earmarked Reserves.

The Council's General and Earmarked Reserves remain at robust, risk assessed levels. These levels are key to the delivery of the Council's objectives over the medium term as a means of helping to manage significant potential liabilities and the general reduction in resources. All such risks are regularly reviewed and appear alongside mitigating actions, on the Council's Strategic and Departmental Risk Registers. The Council formally reviews its reserves at least annually, as set out in the Council's Reserves Policy. The last review was reported to Cabinet in September 2018.

Provision has been made in the Council's Revenue Budget and Plan for the major commitments known to the Council. This still leaves the balance on the General Reserve to deal with further unanticipated or unquantifiable costs and one-off priority spending.

Over the period of the Plan, the Council faces a number of commitments which will require funding. These include a number of major capital commitments with on-going revenue costs. The Council has previously funded some capital projects using revenue contributions. In 2018-19 the decision was taken not to do this, leading to an increase in the use of available capital receipts and borrowing to replace the revenue contributions no longer being used.

In order to maintain reserves at an acceptable level over the planning period further assumptions have been made about the need to make contributions back to uncommitted reserves on an annual basis. The ongoing Risk Management Budget has been used. Additions to reserves would be difficult but could be achieved through timing of budget savings and possible slippage on capital schemes.

The level of General Reserve available over the next few years is largely dependent on the achievement of the annual budget savings target. There are pressures on demand-led services such as the ageing population, children's social care, the National Living Wage and waste disposal which will also have an impact on the balance if departments overspend. In the Audit Commission's 'Striking a Balance' report published in 2012, the majority of chief finance officers at the national level regarded an amount of between three and five per cent of the council's net spending as a prudent level for risk based reserves. Over the medium term the Council's figure is likely to average between three and nine per cent of the Council's net budget requirement.

In order to achieve a balanced budget over the medium term, the Council is reliant on the achievement of a programme of significant budget savings over the medium term, as set out in the Plan. Progress against the budget savings targets will be closely monitored, however, lead-in times for consultation activity and increased demand on services, such as adult care and children in care demographics, mean that there is a continued risk of not achieving a balanced budget.

There is still a risk of delay in implementation or indeed an inability to progress a particular saving for a variety of reasons. Delay can be relatively straightforward to quantify and in global terms can be expressed by noting that an average one month's delay across all the savings identified for the coming year would require the use of around an additional £1m of General Reserve; as a one-off cost this is manageable within the context of the resources available. The non-achievement of an indicated saving is less manageable and as a consequence Executive Directors have been made aware of the need to bring forward alternative savings, to at least an equal value, should this scenario occur. The Council has also established a Budget Management Earmarked Reserve which will be used to supplement the use of the General Reserve to manage, where appropriate, any delayed savings to services, as detailed earlier in this report.

Whilst the Council maintains an adequate level of General Reserve, failure to achieve the required level of budget savings, in order to balance the budget, would see the balance of the General Reserve significantly depleted and lead to issues around financial sustainability that would require urgent, radical savings rather than the planned process that minimises the impacts of reductions as far as possible.

It should be noted that the reductions required to balance the budget on an on-going basis have yet to be finally identified. Further saving proposals will be brought to future Cabinet meetings to bridge the gap and one-off resources used to smooth out the achievement of those savings.

Earmarked Reserves are not generally available to the Council for use in its budget and Council Tax setting process. They are required for specific purposes and are a means of smoothing out the costs associated with meeting known or predicted liabilities. These reserves have no specific limit set on them but they should be reasonable for the purpose held and it must be agreed that they are used for the item for which they have been set aside. Earmarked Reserves are regularly reviewed by Cabinet as part of the budget monitoring cycle, to ensure they reflect a level adequate to manage the risks to the Council. Should any reserve be found to be no longer required it will be returned into the General Reserve.

The external auditor makes a judgement on the financial stability of the Council each year when the accounts are audited. The judgement continues to be positive subject to the continuing achievement of budget savings and the maintenance of a robust, risk assessed level of reserves.

The table below illustrates the planned use of General Reserves over the period 2019-20 to 2023-24:

General Reserve Projections

	2019-20	2020-21	2021-22	2022-23	2023-24
	£m	**£m**	**£m**	**£m**	**£m**
Opening Balance	**64.570**	**47.137**	**25.499**	**16.480**	**14.619**
Plus Expected Contributions	12.437	6.073	12.023	6.073	6.073
Less Use	(29.870)	(27.711)	(21.042)	(7.934)	(2.365)
	47.137	**25.499**	**16.480**	**14.619**	**18.327**
Contributions					
Revenue Outturn Report - Committed Underspend	11.937	5.573	5.573	5.573	5.573
Revenue Outturn Report - Retain in Gen Res Underspend	0.000	0.000	0.000	0.000	0.000
Contributions released from Earmarked Reserve	0.500	0.500	0.500	0.500	0.500
Contributions from Prior Year Departmental Underspends	0.000	0.000	0.000	0.000	0.000
Balance from Budget Management Earmarked Reserve	0.000	0.000	5.950	0.000	0.000
Other sundry	0.000	0.000	0.000	0.000	0.000
	12.437	**6.073**	**12.023**	**6.073**	**6.073**
Use					
Budget Monitoring Report - Projected Overspend	7.000	3.000	1.000	0.000	0.000
Prior Year Commitments	12.202	2.000	2.000	2.000	2.000
Contributions to Earmarked Reserve	0.000	0.000	0.000	0.000	0.000
Elections	0.000	0.000	1.000	0.000	0.000
Buxton Crescent	5.700	0.000	0.000	0.000	0.000
Whaley Bridge	2.000	0.000	0.000	0.000	0.000
DSG HNB deficit EM Reserve contribution - projected o/spend	0.968	0.000	0.500	1.500	0.000
VR/VER	0.000	3.000	0.000	0.000	0.000
Academisation deficits	2.000	2.000	0.000	0.000	0.000
General Revenue Budget Support	0.000	17.711	16.542	4.434	0.365
	29.870	**27.711**	**21.042**	**7.934**	**2.365**

CONCLUSION

Undoubtedly the Council has managed the achievement of a balanced budget in a robust and planned manner over the period of the current downturn in general government support for local authority spending.

The level of savings required over the medium term remains significant. By 2023-24, the Council needs to have reduced expenditure by a further £63 million in real terms. This is in addition to a £271 million reduction the Council has already made to services since 2010. The Council continues to look at ways to save money and generate income, whilst trying to protect and deliver services suitable for the residents of Derbyshire.

The Council has undertaken a review to identify a programme of savings over this period. The Revenue Budget Report 2019-20 highlighted that of this £63m target, £30m (48%) had been identified. To continue to provide a financially sustainable base, on which to provide services over the medium term and not leave the Council unable to deal with financial risk, in the six months since the Revenue Budget 2019-20 was compiled, departments have been reassessing their identified savings, with a view to bridging the savings shortfall.

Reassessed details of identified annual budget savings for 2020-21 to 2023-24 are shown at Appendix Two. These identified budget savings comprise £44.792m of departmental annual budget savings and £8.000m of cross-departmental annual budget savings. Overall, a shortfall of £0.365m identified annual budget savings, against the £63.168m budget savings target, remains over the five years of the Plan. In headline terms the Council has now identified measures which should help achieve most of the budget gap over the period of the Plan, although there is a clear challenge to identify the remainder and plan the best approach to achieving those savings over the next few years.

The timescales are clearly important; the majority of any savings need to be achieved in the period up to 31 March 2022, this reflects two variables: the final reductions from Government in Revenue Support Grant; the desire by the current administration to have a 0% Council Tax rise in both 2020-21 and 2021-22 as well as deciding not to take the full increase possible in 2019-20.

The achievement of a balanced budget is dependent on the Council meeting its budget reduction target annually. There is an overall cumulative budget shortfall of £39.052m by the end of 2023-24, comparing the profile of budget savings required over the period of the Plan to the profile of budget savings identified. There is already a planned use of General and Earmarked Reserves from 2019-20 to 2023-24 in order to achieve a balanced budget. Whilst the General Reserve remains at a prudent risk assessed level over the period of the Plan, any overspends arising from demand management issues or slippage on the achievement of savings will require a further call on the General Reserve.

Significant consultation and planning timeframes are required to achieve many of these savings. Delays in agreeing proposals could result in overspends by departments, which would then deplete the level of General Reserve held by the Council, decreasing its ability to meet short term, unforeseeable expenditure.

In many cases the cost savings proposals will be subject to consultation and equality analysis processes. No assumptions have been made as to the outcome of those consultations or the outcome of final decisions which have yet to be made. With regard to the savings proposals which have not yet been considered by Cabinet and, where appropriate, by individual Cabinet Members, the necessary consultation exercises will be undertaken and any equality implications will be assessed before final decisions are made. Throughout the process it will be essential to ensure that the Council continues to meets its statutory and contractual obligations.

Further, there is uncertainty over future funding because of changes the Government is committed to making in the funding of councils via retained Business Rates and remaining Government grant funding regimes. At present the Council has no indication of how these technical changes, alongside the results of the next Comprehensive Spending Review, will affect the Council’s funding position.

In October 2016, the Council confirmed its acceptance of the Government’s multi-year funding offer, announced in December 2015. The funding offer provides details of Government Grant allocations up to and including 2019-20. The intention is that these multi-year settlements provide funding certainty and stability to enable more proactive planning of service delivery and support strategic collaboration with local partners.

However, there is now growing uncertainty in the sector regarding the funding levels beyond this period. The Government had previously announced its intention to move to a 100% Business Rates Retention Scheme in 2019-20. The Government has confirmed that it has revised its aims and is pursuing a 75% business rates retention scheme by 2020-21 and eventually to 100%. Alongside this announcement, the Government published further consultations as part of its Fair Funding Review. The work will be divided into three closely related strands which are relative needs, relative resources and transitional arrangements. The implementation date for the Review was expected to be 2020-21 but the latest indications are that the Government’s Fair Funding Review is behind schedule and that a new multi-year funding settlement will be delayed by at least one year.

As this period of consultation between local government and central government continues over the coming months, to establish a distribution methodology that is fit for purpose, local authorities are struggling to set medium term financial plans due to this element of uncertainty. The Plan is predicated on the basis that the funding to the Council is in its existing format of 50% Business Rates Retention, as it is difficult to predict the likely impact of the proposed changes to the scheme and the financial impact until further detailed information is provided by the Government.

The introduction of 75% Business Rates Retention is currently assumed to be fiscally neutral to the Council. To ensure that the reforms are fiscally neutral, local government will need to take on extra responsibilities and functions at the point that full localisation occurs, as currently, more is raised from business rates than spent locally. The Government will also need to take account of future events such as transfers of responsibility for functions between local authorities, mergers between local authorities and any other unforeseen events.

Although there continues to be a consistent rise in business rates growth in the county, a change in the economic life-cycle or a significant loss of business in the region will impact on the level of business rates income.

The Plan sets out plans to support the Adult Care budget over the medium term, through the Adult Social Care precept. The Plan also assumes that the use of the improved Better Care Fund allocations will support the base budget, through collaboration with clinical commissioning groups and that existing allocations of the improved Better Care Fund continue to be paid beyond 2019-20. If the funding ceases beyond 2019-20, local authorities will experience a ‘cliff edge’ funding effect that will significantly impact on the delivery of adult social care services.

The Council Plan sets out the Council’s priorities which include working efficiently and effectively. The Council will be pursuing new delivery and commissioning models to achieve its priorities. It will review the way it works, ensuring its operation is fit for purpose.

To ensure an element of transparency in its decision making, a value for money board has been established which will examine and review Council contracts.

The Council faces a period of funding uncertainty beyond 2019-20 and it will await the outcome of the Government’s review of the funding distribution methodology.

REFERENCE DOCUMENTS

Department for Communities and Local Government -
2019-20 Final Local Government Finance Settlement:
https://www.gov.uk/government/collections/final-local-government-finance-settlement-england-2019-to-2020

HM Treasury –
Autumn Budget 2018
https://www.gov.uk/government/publications/budget-2018-documents

BUDGET SAVINGS PROPOSALS SUMMARY

	BUDGET SAVINGS £				
	2020-21	**2021-22**	**2022-23**	**2023-24**	**TOTAL**
Budget Savings Target	**33,424,000**	**15,372,000**	**618,000**	**361,000**	**49,775,000**
Shortfall b/f from 2019-20*	**3,382,000**	**0**	**0**	**0**	**3,382,000**
Departmental Budget Savings Identified					
Adult Care	-3,784,000	-8,970,000	-7,720,000	-1,860,000	-22,334,000
Children's Services	-2,350,000	-1,972,000	-786,000	-200,000	-5,308,000
Economy, Transport and Environment	-1,426,000	-2,013,000	-2,220,000	-2,370,000	-8,029,000
Commissioning, Communities and Policy	-6,235,000	-2,586,000	0	0	-8,821,000
Total Departmental Budget Savings Identified	**-13,795,000**	**-15,541,000**	**-10,726,000**	**-4,430,000**	**-44,492,000**
Departmental Budget Savings Identification Annual Shortfall/(Surplus)	**23,011,000**	**-169,000**	**-10,108,000**	**-4,069,000**	**8,665,000**
Total Cross Departmental Annual Budget Savings	**-5,000,000**	**-1,000,000**	**-2,000,000**	**0**	**-8,000,000**
Annual Budget Savings Shortfall/(Surplus)	**18,011,000**	**-1,169,000**	**-12,108,000**	**-4,069,000**	**665,000**
Overall Cumulative Budget Shortfall^	**18,011,000**	**16,842,000**	**4,734,000**	**665,000**	**40,252,000**

* A shortfall of £3.382m remains from the 2019-20 target of £13.393m. This will be funded from the General Reserve in 2019-20.
^ The cumulative shortfall will be met from the General Reserve.

BUDGET SAVINGS PROPOSALS SUMMARY – DEPARTMENTAL

ADULT CARE

	BUDGET SAVINGS £ 2020-21	2021-22	2022-23	2023-24	TOTAL
Budget Savings Target	**14,305,000**	**6,579,000**	**264,000**	**155,000**	**21,303,000**
Savings Proposals RAG Status*					
Green	-250,000	-100,000	0	0	-350,000
Amber	-2,934,000	-8,620,000	-7,720,000	-1,860,000	-21,134,000
Red	-600,000	-250,000	0	0	-850,000
Total Savings Identified	**-3,784,000**	**-8,970,000**	**-7,720,000**	**-1,860,000**	**-22,334,000**
Savings Identification Annual Shortfall/(Surplus)	**10,521,000**	**-2,391,000**	**-7,456,000**	**-1,705,000**	**-1,031,000**
Plan Cumulative Budget Shortfall/(Surplus)	**10,521,000**	**8,130,000**	**674,000**	**-1,031,000**	**18,294,000**

BUDGET SAVINGS PROPOSALS SUMMARY – DEPARTMENTAL

CHILDREN'S SERVICES

	BUDGET SAVINGS £				
	2020-21*	2021-22	2022-23	2023-24	TOTAL
Budget Savings Target	**8,901,000**	**3,459,000**	**139,000**	**81,000**	**12,580,000**
Budget Savings Proposals RAG Status*					
Green	-812,000	-616,000	-343,000	-200,000	-1,971,000
Amber	-1,293,000	-456,000	-300,000	0	-2,049,000
Red	-245,000	-900,000	-143,000	0	-1,288,000
Total Savings Identified	**-2,350,000**	**-1,972,000**	**-786,000**	**-200,000**	**-5,308,000**
Savings Identification Annual Shortfall/(Surplus)	**6,551,000**	**1,487,000**	**-647,000**	**-119,000**	**7,272,000**
Plan Cumulative Budget Shortfall/(Surplus)	**6,551,000**	**8,038,000**	**7,391,000**	**7,272,000**	**29,252,000**

*** A shortfall of £1.382m remains from the 2019-20 target of £3.013m and has been included with the 2020-21 budget savings target of £7.519m. This will be funded from the General Reserve in 2019-20.**

BUDGET SAVINGS PROPOSALS SUMMARY – DEPARTMENTAL

ECONOMY, TRANSPORT AND ENVIRONMENT

	BUDGET SAVINGS £				
	2020-21*	2021-22	2022-23	2023-24	TOTAL
Budget Savings Target	**8,654,000**	**3,060,000**	**124,000**	**72,000**	**11,910,000**
Budget Savings Proposals RAG Status*					
Green	-450,000	0	0	-150,000	-600,000
Amber	-888,000	-2,013,000	-2,220,000	-2,220,000	-7,341,000
Red	-88,000	0	0	0	-88,000
Total Savings Identified	**-1,426,000**	**-2,013,000**	**-2,220,000**	**-2,370,000**	**-8,029,000**
Savings Identification Annual Shortfall/(Surplus)	**7,228,000**	**1,047,000**	**-2,096,000**	**-2,298,000**	**3,881,000**
Plan Cumulative Budget Shortfall/(Surplus)	**7,228,000**	**8,275,000**	**6,179,000**	**3,881,000**	**25,563,000**

*** A shortfall of £2.000m remains from the 2019-20 target of £2.666m and has been included with the 2020-21 budget savings target of £6.654m. This will be funded from the General Reserve in 2019-20.**

BUDGET SAVINGS PROPOSALS SUMMARY – DEPARTMENTAL

COMMISSIONING, COMMUNITIES AND POLICY

	BUDGET SAVINGS £				
	2020-21	**2021-22**	**2022-23**	**2023-24**	**TOTAL**
Budget Savings Target	**4,946,000**	**2,274,000**	**91,000**	**53,000**	**7,364,000**
Budget Savings Proposals RAG Status*					
Green	-2,218,000	-878,000	0	0	-3,096,000
Amber	-1,599,000	-1,011,000	0	0	-2,610,000
Red	-2,418,000	-697,000	0	0	-3,115,000
Total Savings Identified	**-6,235,000**	**-2,586,000**	**0**	**0**	**-8,821,000**
Savings Identification Annual Shortfall/(Surplus)	**-1,289,000**	**-312,000**	**91,000**	**53,000**	**-1,457,000**
Plan Cumulative Budget Shortfall/(Surplus)	**-1,289,000**	**-1,601,000**	**-1,510,000**	**-1,457,000**	**-5,857,000**

***RAG Status**

Red – The saving proposal is identified as difficult to achieve, either because the project has a risk that the stated savings will not be achieved, or that they may slip in terms of time-scales, or both.

Amber – The saving proposal is identified as being at risk, either because the saving is complicated in nature and requires significant change management to progress or has yet to receive formal Member approval.

For Red and Amber budget savings proposals the Council is considering whether there is anything that can be done, either internally within the Council, or with the support of Members, that would make the savings more likely to be delivered.

Green – The saving proposal is identified as highly likely to be delivered, both to value and to timescale.

BUDGET SAVINGS PROPOSALS 2020-21

Adult Care – Total - £3,784,000

Electronic home care recording - £350,000
The Council commissions home care from agencies and uses an electronic time-recording system, which logs time spent with clients. It is currently looking at replacing this system with a more efficient, fully computerised system which will more accurately record this time. The result will be that the council will pay for the amount of time spent with a client, rather than blocks of time, resulting in a saving. The new system would also alert staff quickly to a missed call.

Reduction in finance staffing - £100,000
Two ICT systems for prepaid accounts and electronic home care recording will allow streamlining of current processes and will reduce the level of staffing required in some areas within this team.

Increase client contributions (co-funding) - £250,000
The Department of Health is currently planning to issue revised guidance on charges for care services. This is expected to increase the amount of income received by the council.

Review other prevention services - £150,000
Efficiency savings in the welfare benefits service.

Whole life disability pathway and assistive technology - £1,029,000
This is part of a four-year programme that will seek to promote greater independence for people living with a disability across the whole county, from those preparing for adulthood upwards.

Older people’s pathway and assistive technology - £1,905,000
This is part of a four-year transformation programme that will seek to promote greater independence for older people in Derbyshire. This will include ensuring consistency and equity of access to the council’s short-term services through the implementation of consistent strength-based and outcome-focussed assessments and reviews.

Children’s Services – Total - £2,350,000

Improved efficiency – £230,000
Children's Services will continue with actions to improve use of resources such as rationalising management structures, making effective use of new technologies, regional partnerships and continuing to improve working processes.

Placements for children unable to live at home – £450,000
Children's Services will continue with actions to ensure cost-effective placement arrangements for those children that are unable to remain with their birth family. These will include ensuring effective use of both Derbyshire provided placements and those placements provided by other agencies. In addition, the Care Leavers service will work with young people from the age of 15 to ensure they are well-prepared for their transition to adulthood.

Continuation of already announced actions in respect of Early Help Services – £167,000
The Council, in conjunction with its partnership agencies, is in the process of completing a major review of early help provision for vulnerable children and their families.

Continuation of already announced actions in respect of Services for Teenagers – £162,000
Savings can be achieved by taking away centralised and back office management functions.

Continuation of already announced actions in respect of Donut Creative Arts Centre – £81,000
The Council will negotiate with other providers to take over the running of the centre, reducing the need for direct staffing and day-to-day running costs.

Continuation of already announced actions in respect of Outdoor education – £130,000
The Council’s outdoor education service will continue to reduce its net costs by widening the facilities available to schools and families and at weekends, for example weddings, functions and camping, to generate additional income and will review its charges to help deliver cost reductions.

Continuation of already announced actions in respect of Special Educational Needs and Disabilities (SEND) – £39,000
The Council’s educational psychology service will further reduce its net cost by increasing income generation.

Continuation of already announced actions in respect of preventing newborn children being taken into care – £143,000
The Council will be working with a partner organisation to support women with the aim of avoiding the need to take newborn children into care because of safeguarding concerns.

Continuation of already announced actions in respect of a combined Children's Safeguarding Board with Derby City – £25,000
Delivery of previously planned actions to reduce duplication and delivery economies of scale through shared arrangements with other Local Authorities.

Disabled Children's Services – £300,000
There will be a review of Disabled Children's Services to ensure that the provision Derbyshire offers remains appropriate for the need across the county and that there is equity in access to support. Additionally, the Council will ensure that services and provision support and prepare young people and their families as they approach adulthood.

Home to School Transport – £70,000
The Council will continue to seek efficiencies in its provision of transport to all pupils to ensure that there is equity across the county. This includes ceasing transport that is not provided for a statutory reason and reviewing the level of subsidy provided to the Council where transport is non-statutory and a contribution is made. It also includes looking at ways of working with parents and carers to help them take their own child to school where it is cost-effective to do so or where there is a statutory responsibility on the parent/carer to take their child to school.

Back office costs – £538,000
This saving will be achieved by reducing general business support and specialised back office functions, including staffing, in line with reductions in frontline services and better use of technology.

Youth Council – £15,000
The operation of the Youth Council will be reviewed to ensure the offer remains relevant and appropriate for young people.

Economy, Transport and Environment – Total - £1,426,000

Waste – £230,000
The cost of disposing of waste will be reduced through restricting use of household waste recycling centres by businesses and people who live outside Derbyshire.

Public Transport – £450,000
Following the additional investment in 2017, the amount the Council spends on subsidised bus services will reduce. This will be achieved by re-tendering services to get a better price and by reviewing some services to make sure they are still being used.

Countryside Service – £400,000
The Council is looking for a combination of alternative sources of funding to generate income through commercial activity or to reduce the cost of this service.

Staffing – £258,000
Staff budgets will be reduced by identifying other sources of income to pay for staff costs.

b_line – £88,000
The Council will no longer provide a public transport discount card for young people, although some operators will continue to provide discounted rates on their trains and buses.

Commissioning, Communities and Policy – Total – £6,235,000

Administration and employee savings – £2,081,000
The number of staff in finance and ICT, communications, human resources, policy, trading standards and community safety will be reduced by not replacing some people when they leave and by restructuring services. Back office costs will also be regularly reviewed. There are also a number of new initiatives, such as channel shift, and procurement exercises being carried out to reduce costs.

Insurance reductions – £350,000

This money will be saved by reducing the contribution to the insurance fund, which means the Council accepting a higher level of risk against the fund.

Interest receipts – £250,000
By managing the Council's cash balances in a more pro-active manner, it is anticipated that this would increase interest receipts. One way that this could be achieved is by looking to invest in longer term, pooled funds which would generate a higher return.

ICT – £275,000
Existing IT contracts and systems will be reviewed and the Council will seek to rationalise the number of systems in use across the authority.

Property Services – £1,893,000
The Council will reduce running costs by rationalising its land and property and releasing the resulting surplus assets. Fees will also be generated from capital schemes.

Legal services – £375,000
A new delivery model will be introduced to manage the demand for Legal Services across the Council.

Additional income – £278,000
The Council will look to raise additional income, e.g. by charging for advertising, increasing income from the Registration Service and the Derbyshire Business Centre and by introducing a charge for the free training currently provided by Community Safety.

Trade Union (TU) Facilities Time – £50,000
The Council is looking to reduce its expenditure on TU Facilities to bring the Council in line with similar county councils which have the lowest percentage of TU Facility Time as a proportion of their pay bill.

Libraries – £320,000

The multi-year programme to transfer 20 libraries to community management, together with regularly reviewing staffing levels and opening hours, will continue, as well as the review of the Mobile Library Service.

Arts – £208,000
The Council will look at alternative ways to deliver the arts service and also review the current arrangements for awarding grants to organisations.

Buxton Museum – £70,000
In line with the proposals to transfer libraries to community management the Council will investigate using volunteers to help to deliver services at Buxton Museum.

Derbyshire Record Office – £60,000
Opening hours and staffing levels will be reviewed.

Trading Standards – £25,000
The service will no longer undertake weight restriction work on Derbyshire roads.

BUDGET SAVINGS PROPOSALS 2021-22

Adult Care – Total - £8,970,000

Continuation from 2020-21 Schemes:

Reduction in finance staffing - £100,000

Increase client contributions (co-funding) - £250,000

Whole life disability pathway and assistive technology - £1,850,000

Older people’s pathway and assistive technology - £6,770,000

Children’s Services – Total – £1,972,000

Continuation from 2020-21 Schemes:

Improved efficiency – £290,000

Disabled Children’s Services – £1,000,000

Back office costs – £266,000

Outdoor Education – £130,000

Preventing newborn children being taken into care – £286,000

Economy, Transport and Environment – Total - £2,013,000

Waste – £230,000
The cost of disposing of waste will be reduced through restricting use of household waste recycling centres by businesses and people who live outside Derbyshire.

Staff Budgets: Economy & Regeneration – £381,000; Environment - £71,000; Highways – £681,000; Resources & Improvement – £475,000
The number of staff will be reduced by not replacing some people when they leave, staff reorganisations and looking for other sources of income to pay for staff costs.

Highway Agency Agreements – £150,000
The Council will reduce the cost of highway maintenance work carried out on its behalf by other organisations.

Parking Services – £25,000
The Council will save money by managing its on street parking service differently.

Commissioning, Communities and Policy - Total - £2,586,000

Continuation from 2020-21 Schemes:

Administration and employee savings – £832,000
The number of staff in finance and ICT, communications, human resources, policy, community safety and trading standards will be reduced by not replacing some people when they leave and by restructuring services. Back office costs will be regularly reviewed. There are also a number of new initiatives and procurement exercises being carried out to reduce costs.

Insurance reductions – £200,000
Further money will be saved by reducing the contribution to the insurance fund, which means the Council accepting a higher level of risk against the fund.

Interest receipts – £250,000
By managing the Council's cash balances in a more pro-active manner, it is anticipated that this would increase interest receipts.

ICT – £256,000
The Council will continue to review its existing IT contracts and systems and seek to rationalise the number of systems in use across the Council.

Property Services – £619,000
The Council will continue to reduce running costs by rationalising its land and property and releasing the resulting surplus assets. It will also generate fees from capital schemes.

Legal services – £223,000
The new delivery model will be utilised to manage the demand for Legal Services across the Council.

Libraries – £206,000
The multi-year programme to transfer some libraries to community management, and the review of staffing levels and opening hours, will continue.

BUDGET SAVINGS PROPOSALS 2022-23

Adult Care – Total - £7,720,000

Continuation from 2020-21 Schemes:

Whole life disability pathway and assistive technology - £1,990,000

Older people's pathway and assistive technology - £5,730,000

Children's Services – Total - £786,000

Continuation from 2020-21 Schemes:

Improved efficiency – £143,000

Disabled Children's Services – £300,000

Preventing newborn children being taken into care – £143,000

Back office costs – £200,000

Economy, Transport and Environment – Total - £2,220,000

Elvaston Castle and Country Park – £120,000
The cost of running Elvaston Castle and Country Park will reduce by investing in projects identified in the Master Plan to help the estate to generate sufficient income to cover its costs.

Waste – £100,000
The Council will work with partners, including district and borough councils, to reduce the cost of disposing of the county's waste.

Future Highways Model – £2,000,000
Additional income will be generated from making better use of the Council's assets by delivering a major improvement plan for the highways service.

BUDGET SAVINGS PROPOSALS 2023-24

Adult Care – Total - £1,860,000

Continuation from 2020-21 Schemes:

Whole life disability pathway and assistive technology - £1,170,000

Older people's pathway and assistive technology - £690,000

Children's Services – Total – £200,000

Continuation from 2020-21 Schemes:

Back office costs – £200,000

Economy, Transport and Environment – Total - £2,370,000

Continuation from 2022-23 Schemes:

Elvaston Castle and Country Park – £120,000

Waste – £2,100,000
The Council will work with partners, including district and borough councils, to reduce the cost of disposing of the county's waste.

Digital Derbyshire – £150,000
The team responsible for ensuring superfast broadband is available across the county will be funded from the Council's reserves instead of a revenue budget.

BUDGET SAVINGS PROPOSALS 2024-25

Economy, Transport and Environment – Total - £120,000

Continuation from 2022-23 Schemes:

Elvaston Castle and Country Park – £120,000

BUDGET SAVINGS PROPOSALS 2025-26

Economy, Transport and Environment – Total - £120,000

Continuation from 2022-23 Schemes:

Elvaston Castle and Country Park – £120,000

BUDGET SAVINGS PROPOSALS – CROSS DEPARTMENTAL

Work has taken place to identify possible savings from the following sources over the life of the Five Year Financial Plan.

Risk Management Budget - £3,000,000
Through tight control of costs it has been possible to release back, for Council-wide use, amounts no longer required by, principally, the Adult Care and Social Health Department. It is proposed to utilise this sum in 2020-21.

Pension Contributions - £1,000,000
It is proposed that the Council pay –upfront – its whole expected pension contribution to the Pension Fund in one payment during 2020-21. This will then generate a longer term saving from saving from the enhanced rates of return available to fund.

Revenue Contribution to Capital - £1,000,000
There is an opportunity in 2020-21 to release a sum of revenue base budget that is used to finance capital, by funding the capital expenditure from borrowing instead.

Procurement Strategy
As part of the implementation of the Council's Procurement Strategy it has become clear that further opportunities for savings exist. It is proposed that a reasonable expectation for further savings is possible at around the £3m level.

This page is intentionally left blank

DERBYSHIRE COUNTY COUNCIL

COUNCIL

9 October 2019

**Report of the Executive Director for
Commissioning, Communities and Policy**

LGPS CENTRAL POOL GOVERNANCE ARRANGEMENTS

1 Purpose of the Report

To seek approval for changes to the governance arrangements of Derbyshire Pension Fund with respect to the LGPS Central Pool.

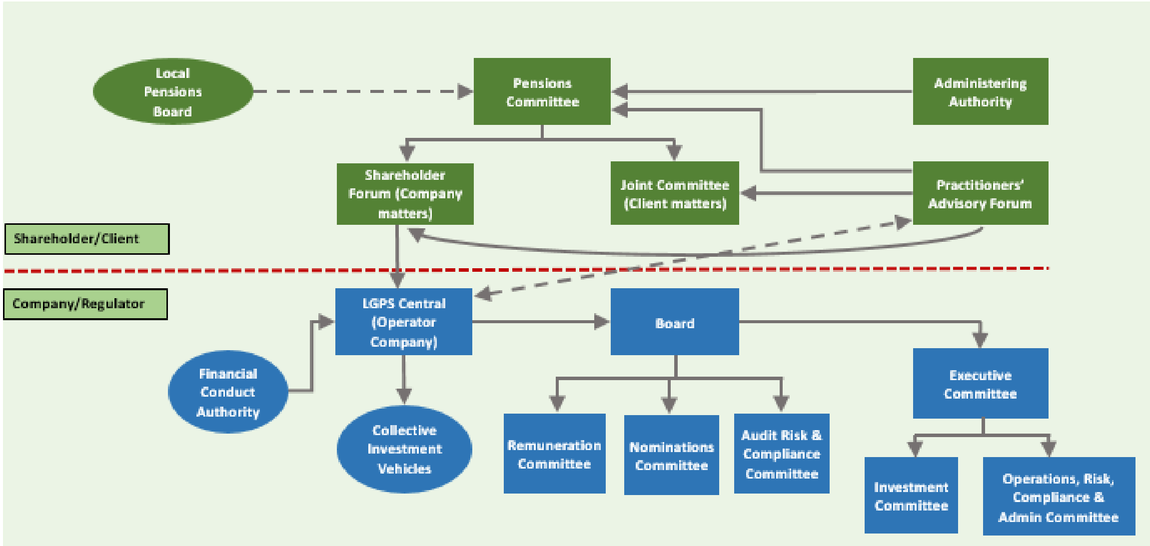
2 Information and Analysis

At a meeting of full Council in February 2017, it was agreed that Derbyshire County Council would enter into an Inter-Authority agreement with Cheshire West and Chester Council, Leicestershire County Council, Nottinghamshire County Council, Shropshire County Council, Staffordshire County Council, Wolverhampton City Council and Worcestershire County Council to establish a joint pension fund investment pool, in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016: to be overseen by a Joint Committee established under s102 of the Local Government Act 1972 and a Shareholders' Forum made up of representatives from all the shareholding councils.

LGPS Central Limited (LGPSC/the company) has been established to manage the investments on behalf of the pool of the eight LGPS funds across the Midlands, administered by the authorities listed above, together with the investments of the West Midlands Integrated Transport Authority Pension Fund, with combined assets under management of around £45bn at the end of March 2019.

The governance arrangements of the LGPS Central Pool (the Pool) are set out in the chart overleaf:

LGPS Central Pool Governance Arrangements



2.1 Shareholders' Forum

The primary role of the Shareholders' Forum is to oversee the operation and performance of LGPSC and to represent the ownership rights and interests of the shareholding councils within the Pool. The Shareholders' Forum is independent of the company and its meetings are distinct from company meetings, however members of the Shareholders' Forum also represent the councils at company meetings.

The shareholding councils are individual investors in the company and each council has in place local arrangements to enable its shareholder representative to vote at company meetings. A Shareholders' Agreement ensures that the councils act in a unified way, having agreed to a common set of principles, with collective shareholder discussions taking place in the Shareholders' Forum.

Derbyshire Council County is a shareholder in LGPSC as the administering authority of Derbyshire Pension Fund; Derbyshire's share of all costs relating to LGPSC are met from the Pension Fund.

LGPSC was set up as a 'Teckal' company in order to satisfy the exemption criteria in regulation 12 of the Public Contracts Regulations 2015 and thereby avoid the need for a full procurement exercise to procure the services of the company. In order to meet the test for the Teckal exemption, the shareholders are expected to exercise a high level of control.

Certain reserved matters are set out in the Shareholders' Agreement which require unanimous shareholder decisions. These include, in the main, appointing and removing Directors, the admission of new joiners to the Pool, approving strategic plans, approving accounts and audits, and decisions on borrowing/lending powers. Other matters not directly related to the control of the company but to manage its operation, are subject to a majority approval (75%) and these include payments of dividends and entering into lease agreements/ capital expenditure.

It was agreed at the Council meeting in February 2017, that the Chair of the Pensions and Investments Committee (the Committee) would represent the Council on the Shareholders' Forum. Subsequently, it was agreed, at a meeting of the Pensions and Investments Committee in June 2017, to delegate authority to the Director of Finance and ICT to make decisions, in consultation with the Chair of the Committee, on any matter which requires a decision by the shareholders of LGPSC.

In order to develop further the Council's oversight of the company and enable greater immediate challenge on increasingly complex matters at company meetings, it is recommended that the Director of Finance & ICT, or his nominee, should represent Derbyshire County Council on the Pool's Shareholders' Forum with delegated authority to make decisions on any matter which requires a decision by the shareholders of LGPSC. All decisions made by the Director of Finance & ICT using his delegated powers would be reported to the following meeting of the Pensions and Investments Committee.

Article 12 of the Council's Constitution, adopted in May 2019, sets out the Pensions and Investments Committee's role in overseeing the Pension Fund's involvement in investment pooling as follows:

- Ensure that the Fund is effectively represented in the Pool's governance structure
- Determine what is required from the Pool to enable the Fund to deliver its Investment Strategy
- Be responsible for the selection, appointment and dismissal of an investment pooling operator (the Operator) to manage the Fund's assets
- Monitor the performance and effectiveness of the Operator both as a shareholder in the Operator and as an investor in the Operator's products
- Ensure that appropriate measures are in place to monitor and report on the ongoing costs and cost savings of investment pooling
- Ensure that the responsible investment, corporate governance and voting policies of the Fund are delivered effectively
- Receive and consider reports and recommendations from the Pool's Joint Committee, Shareholders' Forum and Practitioners' Advisory Forum

2.2 Joint Committee

The Joint Committee is a public forum for the Councils within the Pool to provide oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the Pool's business case and to deal with common investor issues. The Joint Committee provides assistance, guidance and recommendations to the individual councils within the Pool and does not have delegated authority to make binding decisions on behalf of the participating councils.

It was agreed at the Council meeting in February 2017, that the Vice Chair of the Pensions and Investments Committee would represent the Council on the Joint Committee in order to maintain clarity over the governance arrangements. Further to the proposed change to the Council's Shareholder Forum representative, it is recommended that the Chair of the Pensions and Investments Committee, or his nominee, should represent the Council on the Pool's Joint Committee.

3 Other Considerations

In preparing this report the relevance of the following further factors have been considered: financial, legal and human rights, human resources, equality and diversity, health, environmental, transport, property, and prevention of crime and disorder.

4 Officer's Recommendation

That Council appoints:

4.1 the Director of Finance & ICT, or his nominee, to represent Derbyshire County Council on the LGPS Central Shareholders' Forum with delegated authority to make decisions on any matter which requires a decision by the shareholders of LGPS Central Limited.

4.2 the Chair of the Pensions and Investments Committee, or his nominee, to represent Derbyshire County Council on the LGPS Central Joint Committee.

EMMA ALEXANDER

Executive Director for Commissioning, Communities and Policy