



CABINET REPORT

| | |
|---------------------|---|
| Report Title | EFFICIENCY PLAN AND MEDIUM TERM FINANCIAL STRATEGY |
|---------------------|---|

AGENDA STATUS: PUBLIC

| | |
|------------------------------------|---------------------------------|
| Cabinet Meeting Date: | 28 th September 2016 |
| Key Decision: | YES |
| Within Policy: | YES |
| Policy Document: | YES |
| Directorate: | Management Board |
| Accountable Cabinet Member: | Cllr Brandon Eldred |
| Ward(s) | NA |

1. Purpose

- 1.1 This report sets out for Cabinet approval the proposed Efficiency Plan and Medium Term Financial Strategy for 2017/18 to 2020/21, the proposed governance arrangements to ensure that the plan is achieved, and a realignment of earmarked reserves to support the plan.

2. Recommendations

- 2.1 That Cabinet accept the government's offer of a four year funding settlement.
- 2.2 That Cabinet approve the draft Efficiency Plan as attached in Appendix 1, for submission to the Department of Communities and Local Government.
- 2.3 That Cabinet approve the realignment of earmarked reserves as set out in Appendix 2.
- 2.4 That Cabinet approve the proposed governance arrangements supporting the achievement of the Efficiency Plan, as set out in Appendix 3.

3. Issues and Choices

3.1 Report Background

3.1.1 As part of the Local Government Finance Settlement in February 2016, the Government made an offer to Councils to improve medium term planning by setting funding levels over a 4 year period. The proposal will set a minimum level of Revenue Support Grant (RSG), Transitional Grant and Rural Services Delivery Grant. The Governments indicative four year funding offer for the Council is set out in the table below, along with forecasts of other sources of funding:

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| <u>Sources of Funding</u> | £000 | £000 | £000 | £000 | £000 |
| Revenue Support Grant | 3,257 | 1,793 | 886 | 0 | 0 |
| Transition Grant | 24 | 24 | 0 | 0 | 0 |
| Business Rates Retention Scheme | 7,452 | 7,595 | 7,804 | 8,034 | 8,050 |
| New Homes Bonus | 4,910 | 4,113 | 3,292 | 2,871 | 2,449 |
| Total Government Funding | 15,643 | 13,525 | 11,982 | 10,905 | 10,499 |
| Council Tax | 14,425 | 14,884 | 15,351 | 15,826 | 16,308 |
| Surplus on Collection Fund | 533 | 0 | 0 | 0 | 0 |
| Total Funding | 30,601 | 28,409 | 27,333 | 26,731 | 26,807 |

3.1.2 The table above shows how RSG is expected to reduce over the next four years from £3.257m in 2016/17 to zero in 2019/20. The Government has indicated that by 2020 it will introduce 100% business rates retention which will replace RSG. The impact of this is not yet known as details are still to be finalised.

3.1.3 In order to secure this minimum level of funding the Council is required to submit an Efficiency Plan by 14th October. There is no prescribed format for this plan, but the key requirement is that it sets out how the Council will achieve the savings required to set a balance budget over the 4 year period.

3.1.4 In addition to the requirement of government, the Efficiency Plan, or Medium Term Financial Strategy as it is often called, is essential to underpin the Council's delivery of a balanced financial position over the next five years.

3.1.5 Considerable work has been undertaken by Management Board and Heads of Service to develop the financial targets within the plan, review reserves to create a fund to deliver the change required and consider governance arrangements for the delivery of the plan.

3.1.6 The primary driver for the Efficiency Plan is the Council's Corporate Plan, and the need to deliver the priorities of the Council within the resources available.

3.2 Issues

3.2.1 As reported to Cabinet and Council in February 2016 as part of the budget setting process the Council faces a substantial forecast budget gap over the next 4 years, rising to £7.3m by 2020/21. The attached Efficiency Plan

(Appendix 1) sets out target levels of income generation/cost reduction across a number of key workstreams. These workstreams are described in the plan itself.

- 3.2.2 Realising the additional income streams and cost savings are anticipated to require significant levels of investment, both in terms of capital and revenue reserves. In order to ensure that the Council's Earmarked Reserves support the achievement of the Efficiency Plan, these are proposed to be realigned as set out in Appendix 2. The table below summaries the changes to the forecast balance on Earmarked Reserves as at 31st March 2017:

| Reserve | Current £'000 | Proposed £'000 | Change £'000 |
|----------------|--------------------------|---------------------------|-------------------------|
| Service | 4,366 | 2,313 | -2,053 |
| Corporate | 12,560 | 15,026 | +2,466 |
| Technical | 2,682 | 2,269 | -413 |
| Total | 19,608 | 19,608 | 0 |

- 3.2.3 The development of an Efficiency Plan is a significant step forward in the Council's approach to its financial planning. Traditionally it has focussed on an annual approach to budgeting with a high level view over the medium term. The Efficiency Plan is a 5 year plan to provide medium term financial sustainability. In 2017/18 the Council is planning to contribute to its reserves and the Council will continue to seek further efficiencies in 2017/18. However, its real financial challenge starts from 2018/19. The Council will therefore need to focus its efforts on delivering at least £5m of additional income and efficiencies from 2018/19, rising to at least £7m by 2020/21

- 3.2.4 A high level timetable for the implementation of the plan is set out below:

| Action | Q3 16/17 | Q4 16/17 | 2017/18 | 2018 onwards |
|--|---------------------|---------------------|----------------|-------------------------|
| Implement governance arrangements | ✓ | | | |
| Establish project teams | ✓ | | | |
| Produce outline business case for each project | | ✓ | | |
| Refine financial targets | | ✓ | | |
| Project delivery | | ✓ | ✓ | ✓ |
| Identify additional projects and targets | | ✓ | ✓ | ✓ |

3.3 Choices (Options)

- 3.3.1 The options open to the Council are to:
- 3.3.2 Option 1: Not to take up the Government's four year funding offer and not to prepare an Efficiency Plan. By not accepting the four year offer the Council may see further reductions to its RSG allocation. If the Council did not have an Efficiency Plan which demonstrates its approach to delivering a balanced financial position over the medium term the Council may not be financially sustainable in the future.
- 3.3.3 Option 2: Not to take up the Government's four year funding offer and to prepare an Efficiency Plan. By not accepting the four year offer the Council may see further reductions to its RSG allocation. An Efficiency Plan demonstrating the Council's approach to delivering a balanced financial position is a vital component in the Council being financially sustainable in the future.
- 3.3.4 Option 3: To take up the Government's four year offer and to prepare an Efficiency Plan. Accepting the Government's four year offer will provide a minimum income stream for RSG. An Efficiency Plan demonstrating the Council's approach to delivering a balanced financial position is a vital component in the Council being financially sustainable in the future. This is the recommended option.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 The Efficiency Plan sets a framework for the budget process and the focus for the delivery of a sustainable financial position. Any policy implications arising from detailed proposals will be the subject of separate reports to Cabinet and Council, as appropriate.

4.2 Resources and Risk

- 4.2.1 The financial implications are set out in the report.
- 4.2.2 The financial targets within the Efficiency Plan generate a high level of financial risk, due to their scale and diversity. The Council holds General Fund balances in order to provide cover for these risks. The level of GF balances is reviewed and adjusted as part of the annual budget process and again as part of the final accounts process.
- 4.2.3 The Council also holds significant levels of earmarked reserves. These are set aside for specific purposes, but will be re-focussed to ensure that they are targeted on the delivery of the Efficiency Plan and a balanced budget.
- 4.2.4 The table below sets out the key risks for the Efficiency Plan and how they are being mitigated:

| Risk | Likely | Impact | Blended risk | Remarks/Mitigation | Residual risk |
|---|--------|--------|--------------|---|---------------|
| The Council's financial position over the medium term is not sustainable | Low | High | MED | NBC are in a good financial position as at September 2016 with a balanced budget and reasonable levels of reserves. | LOW |
| Competing tensions between delivery of Corporate Plan and Efficiency Plan | Low | High | MED | The workstreams of the Corporate Plan and Efficiency Plan are aligned. | LOW |
| Non delivery of financial targets set out in the Efficiency Plan | Low | High | MED | Appropriate governance arrangements are a key part of the Efficiency Plan to monitor progress and take action if targets are not being delivered. | LOW |
| Government reneges on its four year offer pledge to a minimum level of RSG due to pressure on the national finances | Low | Medium | LOW | RSG is forecast to become an increasingly smaller part of the Council's income sources . | LOW |

4.3 Legal

4.3.1 There are no direct legal considerations arising from the recommendations of the report, however there will be specific legal implications for the work streams detailed in the report and these will be reported to Cabinet on a case by case basis.

4.4 Equality and Health

4.4.1 Equality impact assessments will be undertaken in respect of the detailed budget proposals that will emerge from the Efficiency Plan.

4.5 Consultees (Internal and External)

4.5.1 Management board have been consulted and endorse the Efficiency Plan.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 The Efficiency Plan is linked to, and set in the context of, the Corporate Plan and other approved Council plans and strategies.

4.7 Other Implications

4.7.1 None

5. Background Papers

5.1 None

Glenn Hammons, Chief Finance Officer, 01604 366521