

Cabinet Meeting	Agenda Item: 6
Meeting Date	7 September 2016
Report Title	Four Year Efficiency Plan
Cabinet Member	Cllr Dewar-Whalley, Cabinet Member for Finance and Performance
SMT Lead	Nick Vickers, Head of Finance
Head of Service	Nick Vickers, Head of Finance
Lead Officer	Nick Vickers, Head of Finance
Key Decision	No
Classification	Open
Forward Plan	Reference number:
Recommendations	<ol style="list-style-type: none"> 1. To agree the Four Year Efficiency Plan for submission to Government. 2. To delegate to the Head of Finance, in consultation with the Cabinet Member for Finance and Performance, to make any final amendments prior to submission.

1 Purpose of Report and Executive Summary

- 1.1 To agree a Four Year Efficiency Plan to submit to Government.

2 Background

- 2.1 In the 2016/17 Local Government Finance Settlement the Government introduced a new concept of a Four Year Efficiency Plan. By submitting a plan for that period the Government will guarantee Revenue Support Grant (RSG) for that period, but not other funding. Responses are required by 14 October.
- 2.2 Given that RSG is being phased out, and for the Council is projected to be £2,086,000 in 2016/17, reducing to £1,238,000 in 2017/18, £707,000 in 2018/19, and £113,000 in 2019/20, this is quite a limited offer, but nonetheless one that should not be ignored.
- 2.3 We had expected the Government to issue guidance on the content but none has appeared. Some guidance has come from the Chartered Institute of Public Finance and Accountancy (CIPFA) and we have utilised that in collating our proposals.

3 Proposals

- 3.1 The Council normally has a three year 'medium term' financial plan.

- 3.2 We are already well into the detailed work of updating the plan, and undertaking the annual exercise on pressure and savings for 2017/8 to 2019/20. But 2017/18 is part of a transition to a situation where by 2020 the Council will no longer receive any RSG, and will instead become wholly dependent upon the income it generates locally.
- 3.3 The thinking around this is continuing to develop, and is set out in part in the submission (Appendix I), but will be more fully developed in the 2017/18 budget reports.
- 3.4 We have also included an outline ten-year budget plan to illustrate the key income streams which will determine what services the Council is able to provide and to what level.
- 3.5 Whilst we have made a set of assumptions that underpin the income forecasts, the reality is that they are all volatile; not only are business rates inherently unpredictable due to changes in economic circumstances and the way in which the appeals system works, but the whole operation of the business rates system is currently subject to a major Government review. In addition, we continue to await the Government's response to the consultation on the future of New Homes Bonus, which we responded to in February.
- 3.6 All of this uncertainty argues for in-year prudence, and for the continued careful management of reserves which we have built up. But at the same time we need to actively support income generation and transformation activities which will be fundamental to the longer term financial future of the Council.

4 Alternative Options

- 4.1 The Council could choose not to submit a four year efficiency plan. However, this creates the possibility of the RSG funding already notified to the Council being reduced further, so preparing and submitting this Plan mitigates that risk.

5 Consultation Undertaken or Proposed

- 5.1 Discussions with other Kent borough councils suggest that most, if not all, also intend to submit a plan.

6 Implications

Issue	Implications
Corporate Plan	Supports obtaining resources to meet Corporate Plan objectives, in particular, being 'a Council to be proud of'.
Financial, Resource and Property	Supports the Medium Term Financial Plan, and the annual budget process.
Legal and	There is no legal requirement to submit the plan.

Statutory	
Crime and Disorder	No direct applicability.
Sustainability	No direct applicability.
Health and Wellbeing	No direct applicability.
Risk Management and Health and Safety	Relates to the corporate risk on properly resourcing the Council's activities.
Equality and Diversity	No direct applicability.

7 Appendices

7.1 The following documents are to be published with this report and form part of the report:

- Appendix I: Four Year Efficiency Plan

8 Background Papers

8.1 None

FOUR YEAR EFFICIENCY PLAN

INTRODUCTION

1. This document is the Swale Borough Council response to the offer from the Secretary of State for Communities and Local Government as part of the 2016/17 Local Government Finance Settlement that councils submit a plan to secure the level of Revenue Support Grant allocated for the next three years.

CURRENT POSITION

2. The Council has seen significant year-on-year funding reductions since 2010, with Formula Grant falling from £12,134,000 in 2010/11 to RSG of £2,086,000 in 2016/17, and projected to further reduce to £1,238,000 in 2017/18, £707,000 in 2018/19, and £113,000 in 2019/20.
3. Swale is an area with high levels of deprivation, and the substantial reduction in Formula Grant and then RSG takes away resources that are needed to support significant demands on services.
4. Nonetheless, the Council, through excellent financial management and clear political decision making and prioritisation and no Council Tax increase for six years, has managed to cope well with the impact of deficit reduction:
 - rather than ceasing services as the key or only means of meeting the requirements of deficit recovery, this Council has made it a priority to protect front-line services;
 - as such, soundly based budgets have been set which have been fully delivered with significant end-of-year contributions to reserves resulting from both efficiency measures and raising additional income;
 - these contributions have grown reserves to £17.9m as at 31 March 2016, up 80% since 2010, for a Council whose annual budget requirement is £14.9m. In part these reserve funds, including the Regeneration and Performance Funds, are utilised by members and officers to support new initiatives;
 - partnership working with other local councils has become a default position, in particular in relation to support services which are provided in partnership with Maidstone and Tunbridge Wells Borough Councils;
 - a significant emphasis has also been put on improved commissioning and procurement, not just for our major contracts, but for all external spend; and
 - the single most important factor affecting the Council's finances has been the localisation of business rates in 2013, with the Council retaining 40% of the growth from the 1 April 2013 base position. The Council puts the highest emphasis on developing the local economy and encouraging business

growth, and this has proved highly successful with the Council seeing the highest levels of business rate growth in the County.

FUTURE APPROACH

5. The Council's Corporate Plan objectives are:
 - A Borough to be Proud Of - this priority theme focuses on the Council's aspirations for Swale as a physical place;
 - A Community to be Proud Of - this priority theme focuses on the Council's aspirations for the people of Swale; and
 - A Council to be Proud Of - this priority theme focuses on the Council's need to develop its own organisational capacity and culture as it continually re-assesses how it can best achieve the objectives of the other two priority themes.

6. Under the third priority, 'A Council to be Proud of', a priority has been set for the Council, given the complete removal of RSG, to move to a position where it is totally self-financing from local sources of finance.

7. In order to achieve these aims, the Council requires a radically different approach, building on successes such as partnership working, but going much further. Our high level strategy is built around four key themes:

Theme	Description
Driving Transformation	<p>All services will be reviewed with a focus on digitalisation of customer contact, and lean thinking challenging systems and processes. Fundamental questions will be asked of all areas of activity, taking a digital by design approach. This will include our shared services where efficiency targets have been set in agreement with our partnership councils.</p> <p>This project is supported with £569k of Transformation Challenge Award monies awarded by DCLG.</p>
Driving Income	<p>The bedrock of this is core income from Council Tax (where house building is driving growth in the base), and Business Rates retention, where the Council is being very successful in attracting new business.</p> <p>Good management of our core sources of fees and charges income, principally car parking and planning fees, will also contribute.</p> <p>New sources of income from commercial property</p>

	investment and the development of private rented sector housing will be on-stream by 2020.
Review of major contracts	Investing in a joint waste contract with Kent County Council and Maidstone and Ashford Borough Councils has provided savings of over £1m per annum for the Council, along with enhancements in recycling. Further opportunities are being actively explored, including the Grounds Maintenance contract which expires in 2017; and the current Leisure Centre contract which expires in 2019 where achieving savings and improvements to the leisure facilities are both major priorities for the Council.
Deliver regeneration	Our ambitious regeneration plans for the Borough will bring direct financial benefits through growth in the Council Tax base, Business Rates, and New Homes Bonus.

8. This high level strategy will be delivered through the Council's successful annual budget process. Our approach ensures that all service managers are held accountable for their service budgets, including savings targets. This is supported by a monthly monitoring report to senior management, and quarterly reporting to Cabinet.
9. Our independent external auditors in their most recent Audit Findings Report stated that: "Overall we concluded that you continue to have an effective framework of financial planning and control, and robust arrangements for financial governance".
10. Appendix 1 sets out the Medium Term Financial Plan agreed by Council on 17 February 2016; and Appendix 2 sets out a high-level Ten Year Financial Plan. Please note that some of the figures differ between the appendices as there has been some updating of the assumptions since the February Council report.

RISK MANAGEMENT

11. The Council has recently updated its approach to risk management. One of the high level corporate risks identified is Finance Resource Limitations.
12. The key triggers associated with this risk are set out in the table below.

Risk Trigger	Issues
New Local	<ul style="list-style-type: none"> ▪ Phasing out of RSG, and full funding of local authorities through

Government Finance system	business rates.
Volatility of Business Rates	<ul style="list-style-type: none"> ▪ Variations due to the economic cycle. ▪ The willingness of businesses to expand or relocate in Swale. ▪ The vagaries of the appeals process, whereby there is an inbuilt bias for businesses to appeal, coupled with a lack of capacity by the Valuations Office to handle the volume of appeals. ▪ Re-setting of Business Rates baseline.
New Homes Bonus	<ul style="list-style-type: none"> ▪ This is a major funding stream for the Council, but there has been no response from the Government to the consultation which closed in February 2016.
Council Tax base projections not being delivered	<ul style="list-style-type: none"> ▪ New build housing numbers will ultimately depend upon the willingness of house builders to build, and the rate they are prepared to build at.
Income Generation Project	<ul style="list-style-type: none"> ▪ Commercial risks. ▪ Skills issues. ▪ Willingness of private sector partners to participate.

Agreed by:

Leader of the Council, Cllr Andrew Bowles

Chief Executive, Abdool Kara

Cabinet Member for Finance & Performance,
Duncan Dewar-Whalley

Head of Finance, Nick Vickers

Appendix I

2016/17 Budget & Medium Term Financial Plan

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Base budget	17,609	17,609	17,609	17,609
Growth items	0	469	459	451
Unavoidable cost pressures	0	759	691	697
Loss of income	0	35	35	35
Additional income	0	(595)	(549)	(585)
Committed price increases	0	66	93	136
<u>Salary Related:</u>				
Increments	0	57	79	101
Pay award	0	109	240	371
Contribution to/(from) reserves	317	459	317	317
Revenue Support Grant	(2,929)	(1,955)	(1,107)	(576)
Business Rates	(5,040)	(5,644)	(5,843)	(6,011)
Council Tax	(6,856)	(7,030)	(7,101)	(7,172)
Council Tax Freeze Grant funded from RSG	(79)	(79)	(79)	(79)
Council Tax Freeze Grant funded separately	(80)	0	0	0
New Homes Bonus	(2,824)	(3,482)	(3,500)	(2,199)
Collection Fund Surplus - Council Tax	(176)	(261)	0	0
Savings Required	(58)	517	1,344	3,095
Service savings	0	(517)	(378)	(384)
Requirement for balanced position	0	0	(966)	(2,711)
Committed savings	0	(517)	(1,344)	(3,095)
Contribution (to) from General Fund	(58)	0	0	0

Source: 17 February report to Council

Revised Ten Year Medium Term Financial Plan

	Budget	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan
Year	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure										
Net Service Expenditure c/f (based on 2016/17 budget)	17,812	18,044	18,105	18,148	18,192	18,236	18,280	18,324	18,568	18,812
Net forecast cost/ (savings) (approved in previous years)	66	128	113	113	113	113	113	113	113	113
Pay Award	109	111	110	113	113	113	113	113	113	113
Non-Pay Award Salary Increases	57	22	20	18	18	18	18	18	18	18
Service savings/ Additional income		(200)	(200)	(200)	(200)	(200)	(200)	0	0	0
Net Service Expenditure b/f	18,044	18,105	18,148	18,192	18,236	18,280	18,324	18,568	18,812	19,056
Financing Sources										
<u>Government Support</u>										
Revenue Support Grant	(2,086)	(1,238)	(707)	(113)	0	0	0	0	0	0
New Homes Bonus	(3,482)	(2,800)	(2,500)	(2,500)	(2,400)	(2,300)	(2,200)	(2,100)	(2,000)	(1,900)
Council Tax (assume 2% increase pa)	(7,030)	(7,330)	(7,669)	(8,021)	(8,261)	(8,508)	(8,764)	(9,029)	(9,298)	(9,576)
Business Rates	(5,644)	(6,455)	(7,134)	(7,384)	(7,458)	(7,533)	(7,609)	(7,685)	(7,762)	(7,840)
Collection Fund Surplus C Tax	(261)	15	0	0	0	0	0	0	0	0
Contribution to/(from) reserves	459	127	67	67	67	67	67	67	67	67
Total Financing	(18,044)	(17,681)	(17,943)	(17,951)	(18,052)	(18,274)	(18,506)	(18,747)	(18,993)	(19,249)
Budget Gap (surplus)/ deficit	0	424	205	241	184	6	(182)	(179)	(181)	(193)

Note: a number of assumptions have been updated since the February Council report presented in Appendix I