Efficiency Statement 2016/17 – 2019/20

Introduction

This efficiency statement covers the period 1 April 2016 to 31 March 2020 and has been prepared to support the council's application for a four year funding settlement from central government. Much of the content is not new in that it comprises a number of existing documents including the corporate plan and financial plans to which the council is already working. It does however, seek to bring such plans together to provide a single comprehensive document which outlines the council's financial strategy over the next four years which will underpin the delivery of the council's corporate objectives. Amongst other matters the documents seek to outline the council's approach to managing its finances against a background of declining central government funding and in many instances, rising demand for services driven by demographics, economic challenges and increasing expectations.

Transformational approach informed by past achievements

The council has a strong track record of managing reductions in funding whilst at the same time maintaining front line services. Savings in revenue expenditure during the period 2011/12 to 2015/16 total approximately £2.4 million. This has been achieved without any discernible reduction in the services provided to the public with the majority of savings being secured via efficiency initiatives concentrating on doing 'more with less'. This efficiency statement continues and builds upon this approach. Based on the latest Medium Term Financial Forecast the council will need to reduce its net expenditure by approximately £2.5 million in the period up to 31 March 2020, whilst at the same time delivering the newly refreshed corporate plan (see Appendix 1) which places residents at the centre of all that it does. The corporate plan reflects the council's belief that it can continue to deliver and improve the core services it provides in order to meet the needs of its residents and other stakeholders, whilst securing financial savings to reflect the challenging fiscal environment. The council's approach to service transformation is focussed on cost reductions via efficiency savings combined with the development of income generation opportunities. Reductions in core services do not form part of the council's plans to achieve a balanced and sustainable budget. This approach has shaped the ambitious planned efficiency savings that have already been identified to ensure that the necessary resources will be available to provide for the successful delivery of the council's plans. These savings focus on a variety of areas including more efficient management of the council's asset base, shared services, streamlined officer structures, income generation and alternative delivery models. Several of these initiatives have the potential to be developed further via enhanced partnership working arising from the Derbyshire (D2) Joint Working arrangements.

Accountability and Ownership

This statement reflects the council's approved policies and summarises the authority's plans over the four year period. The document is endorsed by the Leader, Lead Member for Resources, the Chief Executive and the council's Section 151 Officer.

Structure

This Efficiency Statement consists of two broad components.

Section 1 provides details of the council's MTFF and associated narrative.

Section 2 details the council's plans for securing the financial savings identified with the MTFF.

Appendix 1 details the council's corporate plan and is underpinned by this efficiency statement.

Section 1 – Medium Term Financial Forecast (Revenue)

The council's MTFF is updated on an annual basis, the latest update to members was provided alongside the budget report for 2016/17 in February 2016. This document extends the forecast into a four year plan and has been revised to reflect the latest funding and spending information. It includes updated assumptions on pay and price increases, service pressures and receipts from government grants and Council Tax. The updated plan identifies the potential level of savings that are likely to be required through to 2019-20.

The forecast underpins the council's financial plans and annual budgets which in turn ensure that the necessary financial resources are available to meet service priorities contained within the Corporate Plan.

Service pressures arising from the council's corporate plan demographic changes and variable economic conditions coupled with reduction in grant support will provide numerous challenges over the period of the forecast. The council continues to adopt a proactive approach in response to these funding reductions by identifying future pressures and associated risks and developing and implementing plans to address them. This includes the development of a programme of potential budget efficiencies over the medium term in order to achieve a balanced budget.

The level of efficiency savings required over the period of the plan remains significant. The achievement of a balanced budget is dependent on the council meeting its budget reduction targets annually. Whilst the forecast indicates that General Reserves over the period of the plan will remain significantly above officers' assessment of reasonable minimum working balances, any overspends arising from increased demand or slippage on the achievement of budget reductions, may require a call on General Reserves.

The plan shows that net expenditure reductions approximately of £2.5m are required over the period up to 2019-20.

Assumptions underlying the MTFF

(a) Funding streams/income

The last Local Government Finance Settlement announced by the government in December 2015, provided an offer to local authorities of a four year settlement. This offer however only applies to Revenue Support Grant (RSG), Transitional Grant and Rural Services Delivery Grant. As the council is not in receipt of the latter two grants the fixed funding offer only relates to RSG. The intention is that multi-year settlements should provide funding certainty and stability to enable more proactive planning of service delivery, support strategic collaboration with local partners and enable the planned use of reserves. The main estimates of funding used in the construction of the MTFF, i.e. Business Rates, New Homes Bonus (NHB) and Revenue Support Grant (RSG) – up to the period 2019/20 are based on the latest indicative allocations where possible.

Revenue Support Grant (RSG)

The four year figures provided in the 2016/17 settlement indicate that Revenue Support Grant will have fallen to just £0.1m by 2019/20, with the government confirming that RSG will be removed from local authorities' funding stream in 2020/21 as council's move to a revised business rates retention scheme where authorities will be allowed to retain 100% of business rates collected locally. The predicted levels of RSG are as follows:

	£m
2016/17	1.63 confirmed
2017/18	0.97 indicative
2018/19	0.56 indicative
2019/20	0.10 indicative

Business Rates

The government has announced a review of the Business Rates Retention Scheme. There is currently a period of consultation with local authorities with the earliest implementation date possible being 1 April 2018. Therefore, it is difficult to estimate any funding figures for the later years of the plan, as local authorities are yet to see any firm proposals. For the purpose of this financial plan only very modest increases have been included to the forecast. It is hoped that actual increases will exceed these levels and business rates growth forms part of the council's strategy to move towards fiscal independence.

To ensure fiscal neutrality the government has indicated that local authorities will be given additional financial responsibilities as the amount collected in business rates nationally outweighs the current funding quantum allocated to local authorities. These additional costs cannot be qualified at present.

The introduction of the Business Rates Retention Scheme in April 2013 has increased the level of financial risk for local authorities as councils 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.

A further, potentially more significant, risk relates to the impact on business rates from an economic downturn. At present government can act as a buffer to remove any sudden shocks to local authority funding. This safety net is likely to be removed and will provide a further risk to be managed through the General Reserve or the council's Funding Risk Reserve, which was set up with the intention of using it to smooth out fluctuations in funding.

New Homes Bonus

A review is being undertaken of the methodology underpinning the New Homes Bonus scheme. In addition it has been announced that the overall sums available will be reduced by £800 million (two thirds) to enable additional resources to be directed to adult social care. Consequently significant reductions have been incorporated into the forecast in anticipation of a tightening of the criteria and the decline in the funding available.

Council Tax

In common with 2016/17, an increase of £5 (2.93%) has been assumed in council tax for 2017/18 following the release of the consultation on the 2017/18 settlement which indicates that such a rise will not trigger the need for a referendum. For future years an increase of 1.99% has been assumed in anticipation of the local referendum rules. If the £5 option is available in 2018/19 and 2019/20 it is likely that the council may seek to implement this increase which would generate an additional £50,000 per annum.

A tax base increase of 1% per annum has been assumed each year from 2017-18 onwards, which is in line with increases over the last three years. As part of the council's drive towards income self-sufficiency it is hoped that the actual tax base growth will be in the order of at least 2%.

Use of Balances

The table below shows the planned use of balances to support the base budget and one-off items of revenue expenditure.

Use of Reserves	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
GF Reserve - One off Expenditure and Contingency	(396)	(350)	(350)	(350)
New Homes Bonus Reserve	(24)	(583)	(431)	(178)
Funding Risk Reserve	5	(100)	(150)	(200)
Other Earmarked Reserves	49	50	-	-
Totals	**(366)**	**(983)**	**(931)**	**(728)**

This is a significant investment in the base budget position and is possible because of prudent use of New Homes Bonus receipts in the early years of the scheme and a concerted effort to create and maintain a Funding Risk Reserve because of the volatile nature of national funding streams. This level of balance usage reflects the certainty and confidence associated with securing a four year settlement and may need to be revised if this is not forthcoming.

If required, the current and planned levels of General Fund Reserves will allow the council to temporarily support the revenue budget if delays occur in the implementation of the planned efficiencies. Such resources will also be available to provide a financial buffer should there be a change in the council's priorities which in turn would require a reworking of financial plans and the need to identify an alternative savings strategy.

The council also maintains significant earmarked reserves to meet future anticipated expenditure. These reserves relate to a number of areas including ICT equipment, Insurance, New Homes Bonus and Funding Risk (NNDR). In accordance with the council's financial strategy some of these reserves are planned to be utilised during the period 2016/17 – 2019/20, to support revenue and capital expenditure. Significant earmarked revenue reserves will remain at the 31st March 2020 to fund planned expenditure in 2020 and beyond. The planned movement in earmarked reserves during the period is detailed below.

Financial year ending 31st March	Earmarked reserves £'000
2016/17	3,220
2017/18	2,487
2018/19	1,806
2019/20	1,428

Note: In addition to supporting the revenue account (see MTFF) £200,000 of earmarked revenue reserves are planned to be utilised to support the capital programme in 2017/18 and 2018/19 (equipment).

b) Expenditure

Price Inflation

Inflation is expected to remain low over the medium term and with the price of oil currently at record lows, utility and commodity costs are not expected to rise significantly. This low inflation outlook has been incorporated in the MTFF.

Living Wage

The new national Living Wage for workers over the age of 25 commenced at £7.20 from April 2016 and will rise to £9 an hour by 2020. In the longer term it is anticipated that there will also be a knock on effect as differentials are eroded. The estimated base cost to the council is up to £137,000 per annum by year 5 and an appropriate allowance has been incorporated into the MTFF.

Pay Award

The latest local government pay offer of a 1% increase in both 2016/17 and 2017/18 in addition to increasing the bottom pay points to take account of the new National Living Wage has been factored into the forecast. From 2018/19 onwards an increase of 1% per annum has been assumed.

Contingency for unexpected items and price rises

An amount of £275,000 was included to cover one-off contingency items in 2016/17 and it has been assumed that this will continue at a similar level over the term of the MTFF.

National Insurance Contributions

Increases to employers' National Insurance contributions as a result of changes in legislation have been factored into the budget from 2016/17 onwards.

Apprenticeship Levy

The government announced in the July 2015 Budget that large employers will pay a levy, from April 2017, which will be set at a rate of 0.5% of an employer's pay bill. The estimated cost to the council of approximately £40,000 has been included in the forecast.

Pension Fund

There may be increased employer contributions following the actuarial review in 2016/17 however no details are currently available and consequently no specific allowance for any increase has been built into the forecast post 31 March 2017.

Interest Receipts

The base rate of interest has remained at 0.5% since March 2009 and has recently been reduced to 0.25%. The plan assumes a low level of interest receipts over the five years. (No borrowing costs have been included, as the council is expected to remain debt free over the term of the forecast).

Ongoing Service Pressures

Demographic and economic pressures will continue to affect services and the effects will be assessed during the annual budget setting processes. One potential significant pressure is likely to come from the retendering of the Waste Recycling contract. An additional £50,000 has been built into the plan at this stage until it becomes clearer on how far the payment from the current contractor to terminate the contract at 31/3/17 will go towards the potential increase in costs from a new contract.

Section 1 – Medium Term Financial Forecast (Capital)

The council's capital expenditure forecast and financing requirements are detailed below:

Proposed Capital Budget and Resources Forecast	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Capital Receipts Opening Balance 1 April	**1,540**	**365**	**334**	**743**
Add: Forecast receipts				
Preserved Right to Buy Receipts	190	180	170	160
Miscellaneous Sales	190	150	600	150
Sub-total	**1,920**	**695**	**1104**	**1053**
Capital Programme				
Carry Forwards	2,115			
Annual Programme	1,242	888	888	788
Approved in year	135			
Sub-total	**3,492**	**888**	**888**	**788**
Funded from:				
External Grants	1,050	427	427	427
Earmarked Reserves (capital)	887	0	0	0
Earmarked Reserves (revenue)	0	100	100	0
Remainder from Capital Receipts	1,555	361	361	361
Forecast Available Capital Receipts at 31 March	**365**	**334**	**743**	**692**

In addition to the above, the council is currently finalising its requirement for vehicle replacements during the period 2017/18 – 2019/20. This expenditure will be financed from the Vehicle Renewals reserve. The balance on the reserves at 1st April 2016 is £1 million. Further planned contributions to the reserve are planned during the period of this statement.

The council is currently debt free and it is anticipated that this situation will continue during the period of the Efficiency Statement as the council will have no capital financing requirement during this period. The council has the capacity to maintain a sustainable capital programme during the period of the Efficiency Statement. The budgeted level of capital receipts reflects the proposed review of the council's asset base and is based on the most up to date information available.

ANNEXE 1 – MEDIUM TERM FINANCIAL PLAN 2016-17 to 2019-20

MEDIUM TERM FINANCIAL FORECAST	2016/17 £000 MTFF	2017/18 £000 MTFF	2018/19 £000 MTFF	2019/20 £000 MTFF
INCOME				
Revenue Support Grant	1,626	970	560	100
Local Retention of Business Rates	4,176	4,225	4,275	4,300
Collection Fund (Deficit)/ Surplus	78	0	0	0
New Homes Bonus Grant	1,591	1,017	684	599
Council Tax Income	5,508	5,726	5,898	6,076
Total Income	**12,979**	**11,938**	**11,417**	**11,075**
Base Budget Bfwd from Previous Year	**13,406**	**12,949**	**12,571**	**11,998**
Council Wide Pressures				
Employee Costs				
NI Increase	180			
Pay award	124	125	125	125
Increments/pensions	159	160	160	160
National living wage		10	18	39
Apprentice Levy		40		
Income	(321)	45		
Other Directorate Savings/Pressures	(599)	(6)		
Draft Budget	**12,949**	**13,323**	**12,874**	**12,322**
Base Budget Gap	***30***	***(1,385)***	***(1,457)***	***(1,247)***
Total One off Projects/Pressures	396	350	350	350
TOTAL EXPENDITURE REQUIREMENT	**13,345**	**13,673**	**13,224**	**12,672**
Transfer (from)/to GF balances - One Offs	(396)	(350)	(350)	(350)
Transfer (from)/to Earmarked Reserves - NHB	(24)	(583)	(431)	(178)
- Funding Risk Reserve	5	(100)	(150)	(200)
- Other Earmarked Reserves	49	50	0	0
Total One Offs and conts. from Earmarked Reserves	**(366)**	**(983)**	**(931)**	**(728)**
Efficiency Savings required	**(0)**	**(752)**	**(876)**	**(869)**

MEDIUM TERM FINANCIAL FORECAST	2016/17 £000 MTFF	2017/18 £000 MTFF	2018/19 £000 MTFF	2019/20 £000 MTFF
Available GF Balances 1 April	**5,784**	**5,388**	**5,038**	**4,688**
Budget Deficit - need to use balances	**0**	**0**	**0**	**0**
Transfer to Funding Risk Reserve				
Transfer (from) GF balances to fund One off Pressures	(396)	(350)	(350)	(350)
Available GF Balances at 31 March	**5,388**	**5,038**	**4,688**	**4,338**
Minimum Balances at 6.5% of gross base expd	3,385	3,216	3,055	2,902
Forecast amount above minimum balance	**2,003**	**1,822**	**1,633**	**1,436**
Earmarked Revenue Reserves	*3,220*	*2,487*	*1,806*	*1,428*
	16/17	**17/18**	**18/19**	**18/19**
EBC Precept	5,507,865	5,725,689	5,898,026	6,075,551
Council Tax Base	32,227	32,549	32,874	33,203
Band D	170.91	175.91	179.41	182.98
Percentage Increase	3.01%	2.93%	1.99%	1.99%
Increase as weekly amount	£0.10	£0.10	£0.07	£0.07

<u>Section 2 Efficiency Savings</u>

Base Budget Reductions Secured in 2016/17 £'000 457

Planned efficiency savings 2017/18 – 2019/20	**Base Budget Reductions**			
Further development of shared services	**17/18 £'000**	**18/19 £'000**	**19/20 £'000**	**Total £'000**
In recent times the council has entered into shared service arrangements with a neighbouring council which have already secured significant savings. Areas include, Exchequer Services (Council Tax, NNDR and Benefits), Building Control and Audit. Further significant savings are considered achievable by further developing service integration.	50	150	50	250
Efficient use of accommodation The council currently shares its accommodation with several partners. Further opportunities exist including co-location with the Department of Works and Pensions. (Potential relocation of two existing Job Centres).	-	-	200	200
Alternative service delivery models Options are being explored for the adoption of alternative methods for the future delivery of Leisure Services including trusts and management outsourcing. Anticipated savings based on 15% and 20% reduction in operating costs.	100	300	-	400
Establishment Opportunities exist to further reduce existing employee costs by streamlining management structures.	150	-	200	350
Additional income generation a) Review of and benchmarking of service charges. b) Development of trading opportunities.	50	100	50	200
Review of Property and Land assets – reduced costs/income streams – the council's current portfolio comprises 43 operational buildings, 15 non-operational, 38 acres of operational land and 15 of non-operational land. Opportunities include working with other councils via development companies as part of the Derbyshire 'One Public Estate'.	50	100	100	250

£’000
457

Planned efficiency savings 2017/18 – 2019/20	17/18 £’000	18/19 £’000	19/20 £’000	Total £’000
Growing the economy – increasing tax base Opportunities exist to expand the council’s tax base eg NNDR and council tax beyond the assumptions in the MTFF via housing and business growth. Overall target over planning period - Additional 1% growth in tax base (£50,000) – total 2% overall and £100,000 uplift in business rates per annum. The council’s area includes a substantial brown field development site. This site is of strategic significance and is currently the subject of a consultation process leading to the adoption of a Supplementary Planning Document. Potential for 2000 homes and 20 hectares of industry. The council is also actively promoting business growth at a number of others sites including town centres. Participation in the Derbyshire Economic Prosperity Shadow Board will also support this objective.	50	150	150	350
Service reviews Continue to drive through future efficiency savings via service reviews.	300	100	100	500
Total Base Budget Savings 2017/18 – 2019/20	**750**	**900**	**850**	**2500**

Sensitivity Analysis/uncertainty

The MTFF included in this Efficiency Statement and the predicted savings are estimates and cannot be predicted with a high level of certainty particularly in years 3 and 4. Over the four year time period costs will remain subject to unpredictable pressures while income streams will be uncertain. In addition the anticipated savings may not prove to be realisable particularly in respect of their quantum. In such circumstances it is important that the council maintains sufficient resources in order to manage such risks. Consequently although the council has a strong system of budgetary control and project management as evidenced by its outturn performance over recent years①, a robust reserves policy has been adopted. Predicted General Reserves at the 31st March 2020 are approximately £4.3 million, £1.4 million in excess of the Section 151 Officer's recommendation minimum reserve. Failure to achieve the anticipated savings outlined in this statement by 10% or 15% would result in a shortfall of between £250,000 and £375,000. This funding deficit could be met from the reserve pending the identification of alternative efficiencies. Similarly, unexpected increases in the base budget in the order of approximately 10% could be accommodated.

The efficiencies identified in the statement represent the council's current plans. Whilst there are no scheduled borough elections during this period circumstances and policies can clearly change particular in later years when decisions are still to be finalised. Again however, it is considered that the council's reserves position provides adequate financial resources to compensate for any policy changes.

Monitoring and Implementation

The council is fully committed to delivering this Efficiency Statement including the corporate plan priorities and planned efficiencies. Progress against targets will be monitored using the financial monitoring reports submitted to the council's management team and summarised in the quarterly financial and performance management report submitted to the Executive. An annual report will be provided to Full Council as part of the Annual Budget Setting report.

Note ①

General Fund Outturn by Year	% (under/over)
2015/16	(5.0)
2014/15	(6.8)
2013/14	(3.8)
2012/13	(7.0)
2011/12	(3.3)