Agenda item 9

Multi-year Settlement and Efficiency Plan

Report by Councillor D Finch, Leader of the Council

Enquiries to Margaret Lee, Executive Director for Corporate and Customer Services (Section 151 Officer)

1. Purpose of Report

1.1 The purpose of the report is to set out an efficiency plan to submit to the Department for Communities and Local Government (DCLG) in order to accept the offer of the multi-year finance settlement.

1.2 This report was presented to Cabinet on 20 September 2016 and the recommendations in this report are recommendations made to the Council by the Cabinet.

2 Recommendations to the Council

2.1 That the Council accept the offer of the Multi-Year Settlement from DCLG.

2.2 That the Council accept the flexible use of capital receipts policy implemented by DCLG.

2.3 That this report be submitted to DCLG as the Council's efficiency plan.

3. Summary

3.1 On 17 December 2015, in the Provisional Settlement, Greg Clarke, then Secretary of State for CLG, announced the opportunity for Councils to 'sign up' to a 4-year settlement, thereby providing greater certainty over government funding streams.

3.2 If local authorities wish to take up this offer, they are required to submit an efficiency plan to the DCLG by 14 October 2016.

3.3 Acceptance of the four-year settlement is optional, but future levels of funding are not guaranteed if it is not accepted, thereby exposing the authority to increased risk and uncertainty of funding. Although the DCLG has said that it will honour the four-year funding agreement, it is not legally required to do so and it cannot be regarded as a firm commitment. If the Council does not sign up to the four-year proposal then there is greater risk.

3.4 Also as part of the 2015 Spending Review, DCLG gave local authorities the right to use capital receipts to fund the revenue costs of transformation projects.

4. The offer

4.1 This settlement offer starts from April 2016 and covers Revenue Support Grant and Rural Services Delivery Grant for a 4-year period and transitional funding for a 2-year period. The Council does not meet the conditions for the Rural Services Delivery Grant.

4.2 The table below sets out the specific funding streams for the next 4 years for Essex County Council, along with the other funding sources available to fund the total budget.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant	(118)	(74)	(46)	(18)
Transitional funding	(7)	(7)	0	0
Settlement offer	**(125)**	**(81)**	**(46)**	**(18)**
Council Tax	(570)	(575)	(580)	(585)
Non Domestic Rates	(165)	(167)	(172)	(178)
Non Domestic Rates deficit	2	0	0	0
Other Government Grants	(47)	(49)	(49)	(49)
Withdrawal from General Balance	(19)	0	0	0
Council Tax surplus	(11)	0	0	0
Total Funding	**(935)**	**(872)**	**(847)**	**(830)**

Note: the 2016/17 council tax of £570m includes the social care precept; this has not been assumed for future years as this decision is taken by full Council as part of the budget in February each year

5. Medium Term Financial Strategy (MTRS)

5.1 The 2016/17 budget and high level MTRS position was included in the budget book approved by Council in February 2016.

5.2 The Council faces significant cost pressures over the MTRS period due to inflation, demographics and the National Living Wage (NLW), which is exacerbated by the funding reductions.

5.3 Over the period covered by the agreement, Government support will reduce from £118m to £18m, a reduction of 84%. This is on top of the £114m (49%) reduction already made since 2013/14. In this same period, inflationary pressure on council services has gone up by 8% and is forecast to increase by a further 12% translating to a budget pressure of £109m. In addition, demand for services through increased population and changes in demographics equates to £47m and with other pressures such as NLW (£96m) and other minor changes, means a total pressure of £352m between 2016/17 and 2019/20. Acceptance of this plan will impose on the County Council a requirement not only to achieve major efficiencies but to be highly creative and innovative in all it does.

5.5 Set out below is the MTRS position – this shows a cash reduction of over £100m and new savings equivalent to 26% of the budget needing to be made in the next three financial years.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
2015/16 Budget	927	927	927	927
Inflation	21	49	79	109
Pressures (demography, legislation, NLW etc)	87	80	110	137
Approved Savings (Council February 2016)	(76)	(91)	(98)	(98)
Use of reserves	(24)	0	0	0
Transformation and efficiency programme	0	(93)	(171)	(246)
Total Revenue Budget	**935**	**872**	**847**	**830**

5.6 The Council is fully cognisant of the challenges that it faces, but is determined to transform how it operates to tackle this enormous financial shift. The Council operates a Transformation and Efficiency programme which is central to delivering the savings, or generating the income it needs, to reach a balanced budget position but also to deliver fundamental change in the way it works both internally and with partners. The framework for this work is as follows:

- System Leadership - Working together with partners to secure the 'Essex we want to create' through public sector reform which results in the best outcomes for Essex and its residents.
- Enabler - More often than not the Council will be a facilitator, adding value by anticipating and with partners, helping to shape the conditions for outcomes to be achieved. The Council will empower people to support themselves and proactively influence and shape demand.
- Digital Leader- The Council will embrace digital first at every opportunity either via direct service delivery or through partners. All interactions will be optimised for a fast, accessible, person-friendly, inclusive and reliable digital experience.
- Collaborative - By default the Council will collaborate with its partners, communities and residents, jointly designing the best solutions with them, and being accountable to maximise the value for Essex people.
- Self-sustaining – By having an innovative, commercial and entrepreneurial culture across the whole organisation, the Council will be financially self-sustaining. It drives efficiency and creates income to enable investment in services for Essex residents.

5.7 A number of proposals have been identified to date, and work is being undertaken to develop these further, some of which will be subject to robust business cases and separate decisions, and some may require public consultation. All of this work will culminate in a draft budget and MTRS being presented to Cabinet in January 2017 and then to Council in February 2017.

5.8 The Council has an outstanding track record both in term of delivering savings and delivering value to its residents, with a constant focus on strategic outcomes and financial prudence, underpinned by innovation and efficiency. Examples include the approach taken to keep children out of care through effective early intervention and prevention, and supporting independent living though the 'Good Lives' programme. This work yielded strong dividends and enabled the Council to minimise the tax burden on households throughout a period when real terms incomes were not increasing. The Council is determined to continue building on that platform.

5.9 To date over **£521m** has been delivered since 2010 and there are plans to deliver a further **£76m** of savings in the current financial year. The Council will continue with ambitious plan to increase efficiencies, to identify new funding streams through an enhanced commercial strategy and to reduce costs.

6. Capital programme

6.1 The Council's longer term capital programme aspirations are significant, it recognise that these investments are essential if it is to deliver revenue savings and transform services to meet future needs.

6.2 The overall vision for the capital programme is to ensure the Council has the infrastructure to meet the needs of its residents and businesses. In doing so, it looks to have a diverse portfolio balancing income generation, investment to reduce revenue costs, and maintaining and enhancing infrastructure.

6.3 The capital strategy to deliver this vision is:

- Building and maintaining a diverse rolling capital programme which is agile and responds to residents' needs, such as providing new accommodation for vulnerable people and improving the County's flood defences.
- Ensuring activity is prioritised accordingly, with robust delivery plans in place, enabling delivery on time and at value, for example ensuring every child has a place at school and maintaining the road network.
- Ensuring external funding is leveraged which will maximise the financial envelope available for capital projects, such as funding for road improvements which reduce congestion and unlock housing and jobs growth.

6.4 The Budget report in February 2016 published the 2016/17 capital programme and the Council's aspiration for 2017/18 and 2018/19. This is summarised in the table below, along with an initial view of the 2019/20 programme.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Capital Programme	252	354	371	312

6.5 The capital programme is reviewed and refreshed on a quarterly basis, as part of the financial overview report to Cabinet.

6.6 The MTRS incorporates the impact of financing the approved capital programme. The capital programme follows a similar process to the revenue budget, which involves new investment proposals being subject to a robust business case, detailing any revenue savings and the cost of financing.

7. **Risks and Opportunities**

7.1 There are a number of risks associated with the MTRS, the most notable are the assumed full delivery of savings, the management of social care demand and the implication of that on the social care market, and the exact implications of new burdens, including the impact of 100% Business Rates Retention.

7.2 The authority has an option to draw on reserves to manage risks. However reserves can only be utilised once, and are not a long-term solution for the authority. There is also a substantial amount of the Council's reserves that are 'restricted use funds' - they are ring-fenced very specifically to long-term contractual commitments such as PFI schemes, or they are partnership funds, and not available to support the spend of the Council.

8. **Flexible Use of Capital Receipts**

8.1 The authority welcomes the additional flexibilities in the use of capital receipts which allow them to be applied to revenue expenditure where that supports transformation.

8.2 Should this new flexibility be required then a flexible use of capital receipts strategy will be presented for approval alongside the Budget Report to Council in February.

9. Policy context

9.1 This report is an assessment of the financial outlook of the authority, which itself is a representation of the corporate plan. The budget was approved in February 2016. The 2017/18 budget will be approved in February 2017, and will incorporate an efficiency plan, and be aligned to the corporate plan.

9.2 It is specifically written to meet the requirements of the 4-year settlement offer provided by the DCLG.

10. Financial implications

10.1 The report has been written by the S151 Officer and the financial implications are set out throughout this report.

11. Legal implications

11.1 Even if the County Council accepts the four-year funding ‘deal’, CLG will not give a binding statutory commitment to provide the funding, meaning that the ‘deal’ can be withdrawn. That said, CLG would not have made the offer unless they intended to honour the deal. Acceptance of the offer will therefore maximise the chances of certainty in funding, but should not be regarded as an absolute guarantee.

11.2 The Efficiency Plan is a statement of intent and is not intended to form any part of the Council’s constitutional policy framework.

12. Staffing and other resource implications

12.1 An element of the efficiency plan and proposals may impact on staffing. The HR implications which may arise as a result of operational plans flowing from this plan will be addressed under their specific implementation plans.

13. Equality and Diversity implications

13.1 The Public Sector Equality Duty applies to the Council when it makes decisions. The duty requires the Council to have regard to the need:

(a) to eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act; in summary, the Act makes discrimination etc on the grounds of a protected characteristic unlawful;

(b) to advance equality of opportunity between people who share a protected characteristic and those who do not;

(c) to foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

13.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, and sexual orientation. The Act states that ‘marriage and civil partnership’ is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

13.3 The equality implications for 2016/17 have been assessed as part of the budget setting process for 2016/17, and will be included in the 2017/18 Budget presented to Council in February 2017. Equality impact assessments will be carried out as part of individual schemes being considered to implement the budget.

14. List of Appendices

Appendix 1 - Equality Impact Assessment

15. Background papers

Budget book
http://www.essex.gov.uk/Your-Council/Council-Spending/Documents/Revenue_budget_and_capital_programme.pdf