

**North East Derbyshire District Council**

**Cabinet**

**28 September 2016**

<p><b>MEDIUM TERM FINANCIAL PLAN – Approval of North East Derbyshire District Council Efficiency Plan</b></p>
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This report is public

**Report of Councillor P R Kerry the Portfolio Holder with Responsibility for  
Economy, Finance and Regeneration**

**Purpose of the Report**

- For Cabinet to approve that the Efficiency Plan – attached to this report as Appendix 1 – be published on the Council’s website and that officers inform the Department for Communities and Local Government that the Council has agreed its Efficiency Plan.
- For Cabinet to consider a minute from the meeting held on 14 July 2016 of the Audit and Corporate Governance Scrutiny Committee, which that Committee requested be brought to Cabinet’s attention.

**1 Report Details**

**Background**

- 1.1. The Government announced as part of its local government financial settlement in February 2016 that it would offer a guaranteed minimum grant level, paid to councils for a 4-year period from April 2016 covering Revenue Support Grant, transitional funding and Rural Services Delivery Grant. This, in the view of the Secretary of State, would increase local authority certainty and confidence and was a key step in supporting councils to strengthen financial management and collaborative work with local partners when considering the way local services are provided in future. The main condition which local authorities are required to meet before being able to benefit from the four year settlement is that they publish an Efficiency Plan on their website by 14 October 2016. The content of that Plan has been left to the discretion of individual authorities although some general guidance was provided in an announcement from the Department for Communities and Local Government in February 2016. Of more assistance has been the publication of some ‘unofficial’ guidance notes from the Local Government Association and CIPFA concerning an appropriate format for the Efficiency Plan.
- 1.2. Within the guidance provided by the LGA and CIPFA the following key points are made:

- The Efficiency Plan should not be a major piece of work but might best consist of a narrative of two to three pages linked to other key strategies with details of ongoing and planned transformation projects. Council's should focus on what works for them and their communities, with the Plan requiring political 'buy in' from the Council's themselves who determine the process required to secure approval.
- Given that the multi year settlement does not cover all funding streams and unpredictable pressures impact upon costs the Efficiency Plan needs to allow for risk and provide sufficient reserves contingencies for risk to be managed.
- The 'localisation' agenda of replacing RSG with NNDR has significantly increased the level of financial uncertainty. Although local government can promote economic growth thereby generating increased NNDR income it needs to be recognised that there are a range of factors outside of local authority control which impact upon the ability to generate growth, whilst levels of income may fluctuate as a result of local economic decline, revaluation appeals, etc. which are outside local control.
- A key principle in developing the Efficiency Plan is that it should build upon existing corporate managerial arrangements such as financial plans set out in the MTFP, the service plans to deliver the Corporate Plan and the performance management framework. For most Council's including North East Derbyshire District Council the Efficiency Plan requires that the existing MTFP which runs to March 2019 should be extended by a further year to cover the period until March 2020.
- It would be appropriate that it be submitted jointly by the Chief Executive and the Council leader.
- The Efficiency Plan needs to acknowledge that elections, etc may change priorities.
- Authorities should take it as an opportunity to extend MTFP to a period of 4 years.

1.3. The Council's Efficiency Plan has been developed in the light of both local circumstances and the LGA/CIPFA guidance. Over previous years the Council has successfully managed the reduction in the level Government funding and its financial and governance arrangements are robust. It is therefore appropriate that we follow the guidance and adopt a relatively light touch approach in respect of the Plan itself.

1.4. While the Efficiency Plan that is recommended for adoption by North East Derbyshire District Council is deliberately light touch, Cabinet will be aware that the Council has robust and well established mechanisms in place to ensure that efficient and effective service delivery arrangements are maintained against a background of the public sector austerity agenda. In particular there is an agreed Growth and Transformation strategy which should both benefit local communities and deliver the financial efficiencies which the Council will need to secure. Cabinet should note that it is intended that the Efficiency Plan be maintained as an up to date document and therefore it will be subject to amendment and refresh over time. Where the amendments are matters of detail the Efficiency Plan will be amended by Officers. Where more fundamental change is appropriate then this will be by way of a report to Cabinet.

- 1.5. One of the key principles that has been adopted locally is that the Council has adopted what amounts to an ongoing series of base budget reviews, opportunities to review systems, taking advantage of employees voluntarily leaving the organisation, or the introduction of new or upgraded ICT systems. The Council's approach to change has helped maintain continuity of service, has limited severance costs and has generally reduced the level of disruption associated with the requirement to deliver services against a background of an ongoing reduction in the level of resources available to fund services.

### **Minute Extract from Audit and Corporate Governance Scrutiny Committee**

- 1.6. Attached to this report as Appendix 2 is a minute extract from the Audit and Corporate Governance Scrutiny Committee. The Audit and Corporate Governance Scrutiny Committee requested that Cabinet consider the minutes of its meeting in respect of the Financial Outturn 2015/2016 report.

## **2. Conclusions and Reasons for Recommendation**

- 2.1. On balance there would appear to be some potential financial advantages associated with accepting the Government's promise of a four year financial settlement. While the settlement only offers certainty around a limited number of funding streams that increased level of certainty will be beneficial to the Council and given that the only requirement to meet is the publication of a light touch Efficiency Plan the benefits would appear to outweigh the costs. The development of an Efficiency Plan also raises awareness across the Council of our requirement to deliver on going efficiency savings in order to meet the challenges of the austerity agenda.

### **Reasons for Recommendation**

- 2.2. To enable Cabinet to agree that the Council should endorse and publicise the Efficiency Plan set out as Appendix 1 to this report.

## **3. Consultation and Equality Impact**

### **Consultation**

- 3.1. There are covered throughout the report.

### **Equalities**

- 3.2. These are covered throughout the report.

## **4. Alternative Options and Reasons for Rejection**

- 4.1. The Council could take the view that it is not appropriate to accept the Government's offer of a period of four years of financial stability in respect of a limited number of grant schemes. While the Government's proposals still leave the Council with a range of funding streams which are at risk of fluctuation or decline there is a clear advantage in securing greater certainty to at least part of our income. While the reward being offered by the Government could be viewed as a relatively limited one this needs to be balanced against the fact that the preparation

of an Efficiency Plan is relatively simple as it is based upon existing plans and procedures which are already in place.

## **5. Implications**

### **5.1. Finance and Risk Implications**

#### **Financial**

- 5.1.1 There are covered throughout the report and the attached Appendix. The key issue for Cabinet to note is that we need to address a forecast annual shortfall which over the period to March 2020 requires cumulative savings approaching £2m.

#### **Risk**

- 5.1.2 There are covered throughout the report and the attached Appendix.

### **6.2. Legal Implications including Data Protection**

- 6.2.1 There are no legal or data protection issues arising directly out of this report.

### **6.3. Human Resources Implications**

- 6.3.1 There are no human resource issues arising directly out of this report.

## **7. Recommendations**

- 7.1. That Cabinet note the report and agree the Efficiency Plan (attached as Appendix 1 to this report), be published on the Council's website in order to allow the Council to benefit from the Government's four year financial settlement.
- 7.2. That delegated powers be granted to the Chief Financial Officer in consultation with the Leader of the Council and the Chief Executive to amend the Efficiency Plan as required in order to ensure that it remains relevant to the circumstances and position of the Council.
- 7.3 That Cabinet notes the Minute from the Audit and Corporate Governance Scrutiny Committee attached to this report as Appendix 2.

## **8. Decision Information**

<b>Is the decision a Key Decision?</b> (A Key Decision is an executive decision which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
<b>District Wards Affected</b>	None directly.

<b>Links to Corporate Plan priorities or Policy Framework</b>	Effective financial management underpins the effective operation of the Council and its ability to secure all of the Corporate Plan priorities.
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9. **Document Information**

<b>Appendix No</b>	<b>Title</b>
1	<b>North East Derbyshire District Council : Efficiency Plan</b>
2	<b>Audit and Corporate Governance Scrutiny Committee 14 July 2016 – Minute Extract</b>
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
<b>Report Author</b>	<b>Contact Number</b>
Executive Director - Operations	7154
Assistant Director – Finance, Revenues and Benefits	7658

**NORTH EAST DERBYSHIRE DISTRICT COUNCIL : EFFICIENCY PLAN**

The Council's Efficiency Plan is based upon our established Corporate policy of continuing to deliver priority services to local residents whilst ensuring that the underlying level of expenditure remains in line with the underlying level of resources.

At the core of the Council's Governance arrangements are a Corporate Plan which establishes priorities for service delivery, together with a Medium Term Financial Plan. These inform the Performance Management Framework which is intended to ensure that the Council continues to provide good value services to local residents. In developing its Efficiency Plan the Council is seeking both to strengthen its existing framework of Corporate Governance whilst ensuring that it secures the increased certainty regarding the level of future resources promised by the Government.

The Council has a good record of managing the issues which arise from ever reducing level of Government funding. It is envisaged that the Council will address further reductions in funding by continuing to progress its policies of Growth and Transformation which were re-affirmed as two of the four Corporate Aims in the current Corporate Plan covering the period up to 2019. The Council's Efficiency Plan is based upon:

**Growth**

Under the localism agenda Councils are increasingly dependent upon the increased levels of income arising from economic growth. While historically the District Council has always been actively supportive of economic growth, under the revised local government financial arrangements which have applied since April 2012 part of the Business Rate income growth is retained by the Council. As new businesses are created, or the decline in existing businesses is slowed the increased level of business rates provides additional income to the Council. Economic prosperity also serve to reduce cost pressures on the Council as prosperity reduces the level of intervention required to support our local communities.

Building new homes, or bringing back existing properties into use benefits the Council through both New Homes Bonus and additional Council Tax income. The Council supports its growth agenda by:

- Working with Partners including D2N2, Sheffield City Region, Derbyshire County Council, the HCA to bring investment, grant funding, skills training, improved infrastructure into our District. We work closely with both funding and other strategic partners, while we engage with local business to better understand their issues to optimise the external support we are able to secure.
- Effective Planning arrangements and engagement with developers to facilitate both business and housing development which strengthen our local communities.
- The Council directly invests in supporting local business operating starter business units at Coney Green and providing a range of other 'easy in – easy out' business unit across the District, operating as Accountable Body for employment training and working in disadvantaged communities to provide support to individuals re-entering the employment market.

- The Council through its housing partner Rykneld Homes (an ALMO) has built in excess of 100 new Council houses over the last three years, and has approved plans which will see a further 100 Council and Registered Provider properties constructed during the next 3 years. This programme makes a contribution to meeting local housing needs, supports the growth agenda directly, whilst the contractual arrangements include clauses specifying social outcomes in terms of apprenticeships / training, etc.

The Council has been more successful in securing housing as opposed to Business Rate growth, with the core revenue budget being funded by £1.2m of New Homes Bonus. With respect to National Non Domestic rates whilst the Council is currently securing level of £0.7m above its baseline figure the available data indicates that it would not be realistic to anticipate significant further growth over the period to March 2020. The Council is, however, working with partners on a limited number of strategic sites which should generate growing levels of NNDR beyond March 2020.

## **Transformation**

The Council has in place a policy of modernising and improving the efficiency of services in order to maintain / improve the quality of service to local people whilst providing 'more from less'.

- Currently the major programme underway is a £2m upgrade of the Council's core Leisure facilities. While these upgrades will promote higher level of usage, they also generate sufficient additional income for this to be an Invest to Save project.
- The Council has invested heavily in ICT over the past five years including a new Customer Relationship Management System (CRM) with upgrades to the majority of other systems.
- The Council has worked hard to develop and increase its income streams including business centres,
- The Council operates as part of a Strategic Alliance with a neighbouring authority Bolsover District Council which has generated significant financial efficiencies primarily in the area of back office costs.
- The Council has undertaken an office rationalisation programme moving its administrative headquarters, reducing the space required for back office services freeing up surplus space for rental to external organisations. While the revenue savings have been modest there has been a significant reduction in backlog capital maintenance costs.

While the Council has managed the initial years of the austerity agenda well it needs to be recognised that this has been achieved by a range of what might be viewed as strategic options including a Strategic Alliance, Office rationalisation, ICT upgrades, maximising income streams, etc. While we would anticipate securing further gains from all of these areas it does need to be recognised that they will provide diminishing returns in the future. The Council therefore needs to identify further 'low hanging fruit' if it is to continue to protect services to local residents at a time of reducing Government funding.

The scale of the challenge facing the Council is set out in the table below:

## NEDDC : Summary of Potential Savings Opportunities

	2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's
<b>Current Efficiency Target / Budget Shortfall</b>	<b>350</b>	<b>1,260</b>	<b>1,520</b>	<b>1,920</b>
Agreed Measures				
NNDR Growth Target	0	0	0	(100)
Transformation, Secondments & Joint Working	(150)	(300)	(450)	(600)
Vacancy Management	(50)	(50)	(50)	(50)
Debt Repayment	(50)	(100)	(200)	(200)
Council Tax Increase (2%)	(100)	(210)	(310)	(420)
<b>Total Savings Options</b>	<b>(350)</b>	<b>(660)</b>	<b>(1,010)</b>	<b>(1,370)</b>
<b>Unidentified Savings Target / (Call on General Fund Balances)</b>	<b>0</b>	<b>(600)</b>	<b>(510)</b>	<b>(550)</b>

These figures are extracted from the Council's MTFP and identify an indicative total savings figure approaching £2m over the period to March 2020. While the estimated figures provided above are fit for purpose it does need to be recognised that they contain a range of assumptions around such areas as NNDR, New Homes Bonus and specific grant levels that are invariably subject to fluctuation. In addition the Council has currently underway a number of transformation projects which once completed should secure reductions in the underlying level of expenditure. Although the figures provided are estimated and include some significant uncertainties, it does need to be recognised that under any scenario the 'austerity' agenda will require significant reductions in the net expenditure of the Council. The indicative savings options provided in the table above are estimated figures and it is necessary to translate these into detailed proposals, then secure Member approval before implementation. The development and implementation of the strategic opportunities identified above requires a significant amount of work and time and the Council is well aware of the risks that the options identified may not be achievable in practice. Some of the key risks together with the mitigation that will be used are highlighted below.

### Growth

While the Council is working on a range of economic development initiatives there is a long time lag before these are translated into expanding businesses and increasing business rates. Although the Council actively progresses its growth agenda through securing external funding for infrastructure, training, site reclamation work etc, it needs to be recognised that this investment secures economic returns over a period beyond the four years which is the focus of the Council's financial planning process.

On the basis of the information currently available we are confident that over the short term current levels of moderate economic growth will be sufficient to ensure that the increased NNDR secured from start ups while not generating additional income will offset reductions in income arising from business closure / revaluation, etc. While there is reasonable certainty regarding the level of new business development in the pipeline, it

needs to be recognised that the Council has less understanding / control of the risks that may arise from the revaluation of premises, or from a higher than anticipated failure rate of existing business.

## Transformation

With respect to Transformation the Council has an established programme of work which is based upon a combination of approaches. In the first place we review services on an on-going basis in order to identify those areas where costs appear to be high, or performance indicates difficulties in meeting agreed standards. Reviews are generally structured around the introduction of new or upgraded software application, or from a Business Process review of current procedures. The Council endeavours to run two to three business processes reviews at any one time and the areas to review are generally selected in response to local circumstances, which include consideration of comparative costs. To minimise the costs and disruption of Restructuring the Business wherever possible changes to structures, etc are introduced as existing employees leave the employment of the authority. In addition improvements to services such as waste collection allows the service to continue to operate with existing resources against a background of rising house numbers. These processes have worked well in the past and the Council has secured significant levels of financial savings, with change on the basis of 'natural wastage' generally minimising disruption and promoting effective working relationships with staff.

The Council has a strong commitment to the process of managed change, however, the approach will need to continue to demonstrate that it can address the scale of the financial challenges that face the authority. If the current approach fails to deliver the financial savings / efficiency gains / service standards required then the authority will be required to look at other options. These may well involve the prioritisation of existing services and are likely to impact both upon the level and quality of services to residents and upon the employees who deliver our services.

As part of the Transformation Programme the Council will seek to secure savings through vacancy management. The savings identified in the table above are those which arise from delays in filling vacancies, however, much of the Transformation Savings will come through changing business processes which provide the opportunity to make a decision not to fill vacancies as they arise thereby securing a permanent reduction in the Council's staffing establishment. While the natural wastage process may be a slower mechanism for delivering savings, there remain significant levels of staff turnover in a number of areas and it is generally more cost effective to realise financial savings through natural wastage than by compulsory redundancy.

The key Transformation Projects which are currently underway / planned are as follows:

	Savings Anticipated £000's			
	16/17 £000's	17/18 £000's	18/19 £000's	19/20 £000's
Upgraded Leisure Facilities generating additional income levels.	0	100	200	220
Savings from Service Restructures	120	160	200	310
IT Efficiencies / Non Employee Costs	30	40	50	70
<b>Projected Transformation Savings</b>	<b>150</b>	<b>300</b>	<b>450</b>	<b>600</b>

## **Council Tax Increases**

Given the extent of the pressures that are evident on the Council's revenue budgets then one of the options which Elected Members will be required to consider is that of a Council Tax increase. Any decision on such increases will clearly take place in the context of the Council's annual budget process and will give appropriate consideration to the impact of any increase upon local residents.

## **Reserves**

The Council currently has two main unallocated General Fund reserves which are the General Fund which stands at £2m, together with the Invest to Save Reserve which has an uncommitted balance of £0.5m. The level of General Fund reserves is considered to be appropriate in the light of the risks facing the Council and officers consider that it would allow us a period of 1 year to adjust and to make appropriate changes to our expenditure and income packages, before General Reserves fell below the £1m mark at which point 'radical' measures to manage the situation would be necessary.

The Invest to Save reserve effectively is an investment fund which is available to use on investments in projects which secure a revenue saving. It is crucial investment funding to facilitate service transformation and to invest in generating additional income streams for the Council.

## **Summary**

The Efficiency Plan is intended to provide a concise summary of the issues facing North East Derbyshire District Council arising from the need to continue to deliver good quality public services against the background of the public sector austerity agenda. It forms part of the Council's wider Governance framework intended to ensure the effective management of service performance, finance and risk. Given that the Efficiency Plan is intended to help manage a process of change the Efficiency Plan will evolve over time to ensure that it remains relevant to assist the Council in securing its objectives.

Councillor Graham Baxter O.B.E.  
Leader of the Council

Dan Swaine  
Chief Executive

**Audit and Corporate Governance Scrutiny Committee**  
**14 July 2016 – Minute Extract**

**141 Medium Term Financial Plan – Financial Outturn 2015/2016**

The Committee considered a report of the Executive Director Operations in relation to the Council's financial outturn for 2015/16 financial year, which was considered by Cabinet on 8 June 2016.

The Council had closed its financial accounts for 2015/16 in line with the target date of 31 May 2016 which had been set to reflect the forthcoming change in the statutory deadline. The Draft Statement of Accounts 2015/16 were now subject to the independent audit from the Council's External Auditors, KPMG.

The final audited accounts will be reported for approval to this Committee at its meeting on 21 September 2016.

The report provided information on the outturn position in respect of the following:

- General Fund Revenue Account
- Housing Revenue Account
- The Council's Capital Investment Programme
- Treasury Management Activity

In relation to the General Fund during the previous financial year the Council managed its budget effectively, securing a favourable financial outturn. In particular the Council successfully met its financial savings target of £0.5m and was able to transfer £0.2m to the General Fund Reserves, together with £0.753m to the Invest to Save Reserve. While the financial position in respect of 2015/16 had been successfully managed it was noted that significant savings were still required to be made in future financial years.

While the outturn had allowed the Council to set aside earmarked reserves to meet contractual commitments and to address some of the key issues and potential liabilities faced by the Council, the Invest to Save Reserve which was the Council's only general earmarked reserve had now been fully committed.

The Housing Revenue Account continued to operate within the parameters set by the Thirty Year Business Plan and the Medium Term Financial Plan.

The Committee discussed the position in relation to the Business Rates Collection Fund deficit and were advised that the requirement to make provision to recognise appeals had the largest impact in generating a potential deficit. The Council had, however, established a reserve to meet these potential liabilities. It was recognised that business rates were a volatile income stream which could impact on future levels of income.

Members queried whether the Council had a strategy for attracting new businesses in order to grow business rates income that would also recognise that growth of

new businesses was important for the District beyond the income stream for the General Fund. It was agreed that the Assistant Director for Economic Growth be invited to a future meeting to advise the Committee in relation to this issue.

The Committee discussed the Council Tax Collection Fund surplus/deficit provisions and was advised that the collection fund had performed better than expected in recent years.

Members queried the headroom calculation for the Housing Revenue Account and were advised that annual provision to repay the Housing Revenue Account debt over the thirty year term was included in the accounts.

The Committee were advised in relation to the Council's Treasury Management Strategy that the volatility in the financial markets presented a potential risk to the Strategy should, for example, it have a further adverse impact on the financial ratings of the UK banks. The situation would continue to be monitored in case the Council's Treasury Management Strategy needed to be reviewed.

Members commented on the timing that this report had been brought to this Committee when it had already been considered and approved by Cabinet in June 2016. The Committee were advised that this timing could not be avoided but the proposed budget for the Council was always brought to this Committee before being submitted to Cabinet. It was discussed that the Committee's comments on this report should be made known to the Cabinet and it was agreed that the minute of this item should be submitted to the next meeting of the Cabinet.

RESOLVED: That:

- (1) The Committee requests that the Assistant Director Economic Growth attend a future meeting of the Committee to discuss the Council's plans for attracting new businesses and growing business rates income.
- (2) The minute for this item be submitted to the next meeting of the Cabinet.
- (3) The Committee notes the report on the Financial Outturn 2015/16.

(Executive Director Operations /  
Assistant Director Economic Growth)