Efficiency Plan

Carlisle City Council

2017/18 to 2021/22

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# Introduction

1.1 The overarching policy guidelines of the Council’s Medium Term Financial Plan (MTFP) are that resources will be redirected to Council priorities via the budget process within the overall caveats that: -

* Redirection of resources towards areas of high priority will be contained within existing budgets, unless increases can be justified and funded through the budget process.
* Council Tax increases will be limited to fair and reasonable levels, taking account of national guidance from Government.
* External grants and income will be maximised wherever possible to mitigate the effects of budget increases.
* Partnership working and funding opportunities will be explored wherever feasible.

1.2 The Medium Term Financial Plan sets out how Carlisle City Council will manage its finances to deliver against its corporate priorities, whilst protecting its financial standing and responding to the many challenges it faces.

1.3 The measures announced by the Government to reduce the amount of Public Spending and to reduce the Country’s structural deficit will continue to play a pivotal role in determining how much the economy grows over the coming years. Economic growth in Carlisle will impact on the income the Council receives and also the support it is able to give to vulnerable residents. Treasury Management income will also be limited whilst interest rates remain low, and the available institutions with which the Council can invest with diminishes due to restrictions in bank credit ratings. The effects on the MTFP of any changes to the state of the economy, including the impact of leaving the European Union, will need to be closely monitored in the short, medium and long term in order to react effectively to changing situations.

1.4 The Medium Term Financial Plan provides the corporate financial planning framework to provide strategic direction to the Council for the next five years and to ensure that the financial resources of the Council are directed to achieving the Council’s key corporate priorities.

1.5 The Council has a history of meeting efficiency targets supported by robust VFM conclusions from External Audit. The Council is approximately one third smaller than in 2010 in making efficiency savings of approximately £7milion mostly from staffing reductions. At the same time services have been transformed enabling the Council to maintain and improve service provision to its customers.

# Financial Principles supporting the MTFP

2.1 The key principles to be applied to the Medium Term Financial Plan (MTFP) are set out by theme below:

Financial Principle 1 – Revenue Budget Strategy

* Guide the integration of financial planning with the priorities set out in the Carlisle Plan to ensure that spending decisions contribute to the achievement of the Council’s priorities;
* Guide and be informed by Directorate and other relevant strategies and plans of the Council, which set out how resources will deliver the outcomes and priorities specified in the Carlisle Plan;
* Forecast a minimum five -year corporate and financial planning horizon, with longer periods developed where necessary;
* Manage performance management and decision making procedures to help achieve the best use of available resources;
* Review the Council’s Reserves and Balances Policy in line with CIPFA and other best practice guidance to ensure that all the reserves held by the Council are still applicable and relevant;
* Achieve a minimum level of General Fund Reserves of £2m over the life of the MTFP subject to an annual risk assessment;
* Consider the use of earmarked reserves to support non-recurring expenditure;
* Monitor and evaluate proposed and actual spending to ensure that value for money is obtained;
* Commitment to minimise staff compulsory redundancies;
* Consider impact of 4-year New Homes Bonus allocations rather than 6-year allocations;
* Consider the impact of any other Government Budget initiatives e.g. 100% retention of Business Rates;
* Consider the impact of the decision to leave the European Union may have on the Council’s budgets, e.g. changing forecasts for interest rates, inflation forecasts, pension fund revaluation and changes in legislation;
* Consider the implications of the use of financial resources on the levels of Council Tax and other Council charges;
* Services that have a statutory requirement to be self-financing need consideration in the budget process. E.g. Licensing, Building Control;
* **Consider the achievement and any re-profiling of transformation savings will affect overall level of savings to be made, including VR/ER service reviews and their impact on the overall savings achieved;**
* Consider and prepare for the likely impact of future pension fund revaluation on the MTFP.

Revenue Budget Assumptions:

* *Phased removal of Revenue Support Grant included in MTFP by 2019/20;*
* *The MTFP assumes adoption of the 4-year settlement announced by Government in 2015/16; an Efficiency Plan has to be produced by October 2016 if the proposal is to be accepted;*
* *Inflation is assumed in the MTFP at 2% for expenditure and 3% for income;*
* *Pay Award is assumed in the MTFP at 1% until 2019/20, then 2% thereafter.*

 Financial Principle 2 – Commercial and Income Generation

* Annual review of the Corporate Charging Policy (Appendix C) to identify areas of potential charging and opportunities for increasing income;
* **Consider the levels of income achievable as part of Corporate Charging Policy;**
* **Consider other sources of potential income generation such as advertising and sponsorship;**
* Consider the development of a commercialised culture where the charging powers of the organisation are maximised and encouraged.

Charging/Income Assumptions:

* *Additional income from assets is assumed to offset the £1m saving requirement from asset management in 2018/19;*
* *Income from fees and charges currently achieve £5m per annum.*

 Financial Principle 3 – Council Tax & Business Rates Policy

* Provide value for money to residents through efficient management of council tax collection;
* Determine Council Tax levels that are prudent and retain stability in the Council’s financial strength;
* **Annual review of the Business Rate Pooling arrangements and whether this should continue for 2017/18;**
* Assessment of the impact of 100% business rates retention including impact on Section 31 grants and funding for Small Business Rate Relief;
* Consider any implications of the Enterprise Zone on the City and potential resources allocated for future projects;
* Annual approval of the Council Tax Reduction Scheme (CTRS);
* Consider any likely reductions to Housing Benefit Admin Grant and the impact on the Council with the onset of Universal Credit.

Council Tax and Business Rate Assumptions:

* *Council tax levels currently assumed at a 1.95% increase per annum over the lifetime of the MTFP*
* *Business Rate Retention growth assumed at £500,000 above the baseline level set by Government rising to £900,000 by 2019/20;*

 Financial Principle 4 – Capital Investment

* Capital resources are held corporately and are allocated according to the priorities set out in the Carlisle Plan (i.e. there is no automatic ring-fencing of resources for specific purposes with the exception of the repayment of Renovation grants);
* Capital receipts, including Preserved Right to Buy (PRTB) receipts (which will end in 2017/18), will be allocated in accordance with Council priorities;
* Specific repayments of Renovation Grants will be reinvested in the programme and be used to support Private Sector Renewal Grants;
* Income generated from the sale of vehicles, plant and equipment will be reinvested in the programme and be used initially to fund future replacements;
* The Council will seek to maximise the use of grants and external funding;
* The Council is committed to deliver capital investment with partners to maximise benefits where this fits with Council priorities;
* Redirection of capital resources from one project to another will be contained within existing budgets, unless increases can be justified through the budget process;
* Capital budgets are generally cash-limited i.e. no provision is made for inflation which effectively means that over time there is a real reduction in the value of resources allocated to specific capital projects;
* Council Tax increases will be limited to fair and reasonable levels. This requires a full assessment of the revenue consequences of capital projects and their respective methods of finance;
	+ Any shortfall against the capital receipts forecast to be received will have significant implications on the ability to deliver the forecast levels of investment without incurring borrowing;
	+ Review of capital financing decisions which will likely have a revenue budget impact due to lack of capital resources (E.g. through re-profiling of capital receipts and borrowing);
	+ Consider the requirements for vehicle replacement and IT capital budgets as no provision is currently included in the MTFP beyond 2018/19;
	+ Revisit the Asset Review Business Plan to see if any asset sales can be re-profiled and whether expected proceeds require revisions;
	+ The reinstatement works for flood affected assets are likely to increase the capital programme but will be funded mainly from insurance settlements;
	+ In order to reduce the exposure of the council to a borrowing requirement the following steps should continue to be examined:
* Fundamental review of current capital programme;
* No new major one-off schemes unless fully funded from grants or external funding;
* Providing a recurring revenue contribution to the capital programme;
* Invest to save schemes that can repay the capital investment over a period of time.

Capital Investment Assumptions:

* *The MTFP assumes a revenue contribution to capital for Refuse Vehicle replacement of £400,000 per annum;*
* *The MTFP assumes an additional revenue contribution to capital of £400,000 per annum for general capital expenditure;*
* *The current capital programme is forecast to utilise all forecast capital receipts and includes a borrowing requirement to fund the planned programme.*

 Financial Principle 5 – Treasury Management

* Annual review of the Treasury Management budget for revised interest rates, changes to average balances and the effects of capital spending decisions;
* Consideration of the repayment and/or re-financing options for the Stock Issue debt due to be repaid in 2020;
* Consider the impact of the Minimum Revenue Provision (MRP) Review;
* Consider appropriate levels of prudential borrowing if required that is affordable, sustainable and within acceptable council tax levels, and delivers objectives aligned to the Council priorities;
* Treasury Management Strategy to achieve the optimum return on investments, with the security of the principal sum always being the primary consideration.

 **Note: The areas in bold support the Council’s efficiency planning.**

# Efficiency Planning

3.1 **Revenue Support Settlement**

It was announced as part of the 2016/17 Local Government Finance Settlement that RSG would be phased out by 2020. The settlement also proposed a four-year settlement from 2016/17 to authorities who signed up to an efficiency program. The Medium Term Financial Plan includes this four-year settlement for the loss of RSG and the Council has formally approved the principle of the four-yearly settlement.

3.2 The main points considered around the 4 year settlement proposals were as follows:

* Local Authorities have to respond with their decision by 14 October 2016
* Have to include a link to a published efficiency plan, MTFP etc.
* Guaranteed funding levels for four years
* The MTFP has been based on the four-year settlement proposals
* 4-year settlement welcomed by LGA
* Efficiency Plans need to show how the certainty of a four-year settlement can bring about opportunities for further savings
* The Government have qualified the offering by stating that final grant determinations (of the funding figures produced) in future years will still be subject to change as the business rates multiplier changes. This is based on the RPI figure and would alter the Business Rate baseline and tariff figures.
* The Government also states that future years could change owing to unforeseen events however it does not indicate if this includes unforeseen economic events such as failing to meet its fiscal targets for a budget surplus.
* Still uncertainty about New Homes Bonus and 100% retention of Business Rates

3.3 **Efficiency Plan and Savings Strategy**

3.3.1 In order to ensure the Council maintains a minimum level of reserves to the end of the MTFP period, efficiencies are required throughout the period of the plan. The efficiency strategy will concentrate on the following areas:

* Asset Strategy – to focus on ensuring the council’s asset portfolio maximises the benefit to the Council through income generation or by realising receipts of assets that do not generate a return that can then be utilised to ease pressures in capital and revenue budgets through the most appropriate means, e.g. re-investment in new assets and supporting the capital programme to reduce the CFR
* Service Reviews – A review of services to include their purpose and relevance in achieving the Carlisle Plan priorities, including a review of those services which do not fall within the Council’s core priorities or which are not statutory will be undertaken to ensure that services and resources are properly aligned to what the Council wants to achieve.
* Core Budgets – a review of base budgets, including income generation, to ensure compliance with best practice on priority and outcome based budgeting and other appropriate budget disciplines.

3.3.2 The profile of efficiencies to be made as included in the Medium Term Financial Plan is as follows:

Table 4: Savings Requirement

3.3.3 The savings currently included in the MTFP to deliver a balanced budget and maintain adequate reserves by 2021/22 are as follows:



 Table 5: Savings

 Note 1: Savings from Voluntary Redundancy will be subject to restructure and staffing reviews and as such could change

3.3.4 Future savings will be dependent upon future funding settlements, Council Tax increases and changes to income and expenditure levels (pressures and savings) that are outwith the current Medium Term Financial Plan. Savings will be profiled in the most effective way to ensure that they are achievable, timely and ensure reserves are not adversely affected. The achievement and re-profiling of transformation savings will affect the overall level of savings to be made, including VR/ER service reviews and their impact on the overall savings achieved.