

Open Report on behalf of Pete Moore, Executive Director for Finance and Public Protection

Report to:	Executive
Date:	06 September 2016
Subject:	Budget Update - Efficiency Strategy and Plan plus Flexible Use of Capital Receipts
Decision Reference:	I011877
Key decision?	Yes

Summary:

The provisional Local Government Settlement announced on 17 December 2015 has given local authorities the opportunity to sign up to a four year funding deal (from 2016/17 to 2019/20). There are also new flexibilities around the use of capital receipts, which, from 1 April 2016 can be used to fund transformational work for a three year period.

In order to qualify for the four year funding commitment the Council must publish an Efficiency Plan and to use capital receipts flexibility the Council must develop a Flexible Use of Capital Receipts Strategy. The two can be combined in one document

In the Council's Budget for 2016/17, approved by County Council on 19 February, the Council set out its intention to use £4.500m under the new flexible use of capital receipts in 2016/17. This paper provides additional information on the Council's Efficiency Plan and Flexible Use of Capital Receipts Strategy for 2016/17 plus an outline for future years and details of a proposal to sign up to the four year funding commitment.

Recommendation(s):

That the Executive:

(1) approves for recommendation to full Council adoption and publication of the Efficiency Plan attached at Appendix A as the Council's Efficiency Plan for the purposes of applying for a four year settlement and the Council's Flexible Use of Capital Receipts Strategy for 2016/17,

(2) notes the effect of the above Flexible Use of Capital Receipts Strategy on the Council's Prudential Indicators for the period 2016/17 to 2019/20 as set out in Appendix A; and

(3) approves for recommendation to full Council acceptance of the offer of a four year funding settlement from Government (for the period 2016/17 to 2019/20).

Alternatives Considered:

1. The Council does not prepare an Efficiency Plan and does not accept the four year funding deal from central Government for the period 2016/17 to 2019/20. In this case funding from central government would be notified to the Council on an annual basis as part of the annual local government settlement for these financial years and the Council would continue to lack the certainty for longer term financial planning. There would be the risk that those Councils which had not signed up to the deal could be disadvantaged if deeper cuts in funding are required by the Government.
2. The Council does not prepare a Flexible Use of Capital Receipts Strategy. This would place the Council in breach of statutory guidance in the fulfilment of its obligations in relation to the treatment of capital receipts

Reasons for Recommendation:

Development of an Efficiency Plan allows the Council the option of accepting the four year funding deal. Development of a Flexible Use of Capital Receipts Strategy is a requirement of statutory guidance governing flexibilities in the use of capital receipts generated in the three years starting from 1 April 2016.

The recommended option is proposed because it provides the Council with some certainty about levels of funding to be received over the period 2016/17 to 2019/20. This will allow the Council to develop robust financial plans through to the end of the decade based on confirmed funding.

The flexibility to use capital receipts on transformational and money saving schemes will allow the Council to fund schemes to make further savings in future years.

1. Background

1.1 By way of a letter dated 10 March 2016, the Secretary of State for Communities and Local Government offered local authorities the greater certainty and confidence of a four year budget settlement. In order to accept this offer, local authorities must notify the Secretary of State not later than 14 October 2016 and provide a link to an Efficiency Plan published by the Council.

1.2 Regulation 23 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 made under section 11 of the Local Government Act 2003, specify the purposes for which capital receipts may be used. The main permitted purpose is to meet capital expenditure together with other specified types

of payment. Permitted purposes do not include use to support revenue expenditure.

1.3 Under section 16(2)(b) of the 2003 Act the Secretary of State is empowered to issue directions providing that expenditure of local authorities shall be treated as capital expenditure for the purpose of Part 1 of the 2003 Act. Where such a direction is made the expenditure specified in the Direction is from that point on capital expenditure which can be met from capital receipts under the Regulations.

1.4 The Secretary of State has issued such a Direction which provides that the Council is to treat the following expenditure as capital expenditure:-

" expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners."

1.5 In complying with this Direction, the Council is required to have regard to Statutory Guidance issued by the Secretary of State. That Guidance requires relevant authorities (including County Councils) to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy the initial strategy being effective from 1 April 2016. The Flexible Use of Capital Receipts Strategy required by the Statutory Guidance can form part of the Efficiency Plan required by the letter of 10 March 2016 as a condition of accepting a four year settlement.

1.6 Government have not prescribed the form and content of this latter document (the Efficiency Plan) but it should demonstrate how greater funding certainty can bring about opportunities for further savings. It should cover the full four year period and be open and transparent about the benefits it will bring to the Council and its community. The letter indicates that the Council should collaborate with local neighbours and public sector partners and link into devolution where appropriate. The underlying principle is to support local authorities to deliver more efficient and sustainable services by providing certainty around funding and extending the use of capital receipts to support the revenue costs of reform projects.

1.7 According to the Statutory Guidance the Flexible Use of Capital Receipts Strategy should as a minimum list each project that plans to make use of the capital receipts flexibility and on a project by project basis details of the expected savings/service transformation should be provided. The effect this will have on the affordability of Council borrowing (set out in the Council's Prudential Indicators) should be included. The Government definition of expenditure which qualifies to be funded from capital receipts is set out in paragraph 1.4 above. The Statutory Guidance states that within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

1.8 **Appendix A** to this report contains the Council's proposed Efficiency Plan effective from 1 April 2016 incorporating the Council's Flexible Use of Capital Receipts Strategy.

1.9 The development of this Efficiency Plan will allow the Council to sign up to the four year funding settlement from Government. The four year settlement will provide certainty and a level of stability allowing the Council to develop robust financial plans for the period up to 2019/20. Increased certainty in levels of funding will allow the Council to refine and develop savings plans which will be required to deliver a balanced budget over this period, while considering cost pressures which must be funded. The Council will continue to use reserves and the flexibility of capital receipts to help deliver savings and smooth their impact over this period. Overall this certainty will strengthen the Council's financial position and ability to deliver balanced budgets to the end of the decade.

1.10 The funding settlement will provide the Council with confirmed funding for Revenue Support Grant, Transitional Grant and Rural Services Delivery Grant, plus top ups from 2016/17 to 2019/20. This represents the following funding for the Council:

Funding Summary	2016/17	2017/18	2018/19	2019/20
	£'m	£'m	£'m	£'m
Revenue Support Grant	70.351	48.292	33.964	20.139
Transitional Grant	0.011	0.009	0.000	0.000
Rural Service Delivery Grant	6.892	5.565	4.281	5.565
Top Up Grant	82.426	84.047	86.526	89.292
TOTAL	159.680	137.913	124.771	114.996

1.11 In an Annex to the letter of 10 March 2016, central government have said that they will also need to take account of future events such as the transfer of functions to local government, transfers of responsibility for functions between local authorities, mergers between authorities and any other unforeseen events. However, they have provided reassurances that barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement, the Government expects these to be the amounts presented to Parliament each year. New burdens funding during this four year period is in addition to these figures.

1.12 The Efficiency Plan including the Flexible Use of Capital Receipts Strategy will be reviewed annually and in future years this Efficiency Plan will be incorporated fully into the Council's annual Budget and Medium Term Financial Strategy approved by County Council each February. At the end of each financial period outcomes will be reported to County Council as part of the Council's Financial Performance Report each September.

1.13 The Efficiency Plan at Appendix A meets the requirements such as they are laid down by the Government in the letter of 10 March in that it addresses how the certainty of a four year budget settlement will create opportunities for further savings. This is essentially through the ability to plan across the four year period and develop more robust financial plans. It is not possible to identify savings at

this stage. As it becomes more possible to develop robust financial plans further detail will be able to be given. This will be dealt with at the time of the Review of the Plan. At that time also the future financial position of partners, particularly health and the financial implications of any devolution Order will be clearer and these elements of the Efficiency Plan can be further addressed at that time.

1.14 Appendix A addresses the requirements of the Flexible Use of Capital Receipts Strategy. In particular, it sets out the projects that are intended to be covered by the flexibilities and the expected savings and deals with the impact on prudential indicators.

1.15 There are not considered to be any direct implications of this decision on the Council's public sector equality duty, the joint health and wellbeing strategy or crime and disorder. This decision will only impact on the certainty of future funding. It is not expected to impact on the extent of funding available and individual decisions will still need to be made as to how the available funding should be spent. Equalities, health and wellbeing and crime and disorder implications of proposals will be dealt with as they are brought forward.

2. Conclusion

2.1 The report sets out the Council's Efficiency Plan which is effective from 1 April 2016 including the Council's plans for using capital receipts to fund revenue transformation.

2.2 It is recommended that the Council apply for the four year funding settlement offered by the Government in order to obtain certainty and a level of stability allowing the Council to develop robust financial plans for the period up to 2019/20.

3. Legal Comments:

The legal background to the recommendations is set out in detail in the Report. The production of an Efficiency Plan and a Flexible Use of Capital Receipts Strategy is a condition for acceptance of a four year settlement and the flexible use of capital receipts respectively.

The acceptance of a four year funding settlement and the flexible use of capital receipts each impact on the budget. The statutory guidance relating to the flexible use of capital receipts states that the Flexible Use of Capital Receipts Strategy should be approved by full Council.

The decision is accordingly within the remit of the full Council on recommendations of the Executive.

4. Resource Comments:

Preparation of the Efficiency Plan and acceptance of the four year funding settlement will bring stability to the Council in the medium term and reduce the risk of further funding reductions from central government.

The Council's budget for 2016/17, approved in February 2016, built in the impact of capital receipts being diverted from the capital programme into funding transformational costs in revenue.

5. Consultation

a) Has Local Member Been Consulted?

n/a

b) Has Executive Councillor Been Consulted?

Yes

c) Scrutiny Comments

This has not been considered by a scrutiny committee.

d) Policy Proofing Actions Required

n/a

6. Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire County Council Efficiency Plan effective from 1 April 2016

7. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

Multi-Year Settlement and Efficiency Plans – Letter dated 10 March 2016 and Annex – Conditions of the Multi Year Settlement	Executive Director of Finance and Public Protection
Statutory Guidance on the Flexible Use of Capital Receipts (updated)	Executive Director of Finance and Public Protection

This report was written by David Forbes, who can be contacted on 01522 553642 or David.Forbes@Lincolnshire.gov.uk.

Lincolnshire County Council Efficiency Plan, effective from 1 April 2016

Background

The Secretary of State's letter of 10 March 2016 requires relevant authorities (including County Councils) to prepare, publish and maintain an Efficiency Plan in order to apply for a four year funding settlement, the initial Plan to be effective from 1 April 2016. Government have not prescribed the form and content of this document but it should demonstrate how greater certainty can bring about opportunities for further savings.

The Efficiency Plan can also contain the Council's Flexible Use of Capital Receipts Strategy which is a requirement of Statutory Guidance issued under section 15 of the Local government Act 2003. Such a Strategy should:-

- Document how the new flexibilities in the use of capital receipts will be used; and
- Show the effect on Prudential Indicators for the period of capital receipt flexibilities.

Efficiency Plan

The efficiency plan for Lincolnshire County Council should be read alongside the Council's Budget for 2016/17 which identifies how the Council will deliver a balanced budget for 2016/17 and details how the Council plans to deliver financial sustainability in the medium term (www.lincolnshire.gov.uk/budget).

Since 2010 the Council has been delivering savings programmes which have allowed it to focus resources on unavoidable cost pressures, such as demand lead services (such as adult and children's social care), as well as allowing the Council to match the level of spending with the reducing funding coming from central government. In effect this programme has meant the Council has had in place an Efficiency Plan for a number of years already.

Over this period the Council has taken a mixed approach to matching Council spending to the level of funding available. This has been through identifying service cost pressure which must be funded, delivering service and corporate budget savings, modest increases in Council Tax, plus the use of reserves to allow the Council to smooth the effect of introducing savings, and from 2016/17 the flexible use of capital receipts.

Reductions in government funding have and continue to pose significant challenges for the County Council; however, confirmed levels of funding over the period 2016/17 to 2019/20 will allow the development of more robust, sustainable financial plans. Going forward the Council will refine and develop savings plans which will be required to deliver a balanced budget over this period, while considering cost pressures which must be funded. The Council will continue to use reserves and the flexibility of capital receipts to smooth the effect of reducing government funding and

re-engineer service provision to allow further savings to be made, while funding unavoidable cost pressures.

Flexible Use of Capital Receipts

Government has provided a definition of expenditure which qualifies to be funded from capital receipts. This is:

"Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility."

The Council's current plans include the following use of capital receipts to fund transformation projects:

	2016/17	2017/18	2018/19
	£'m	£'m	£'m
Planned use of capital receipts	4.500		
Anticipated use of capital receipts		8.000	8.000

In 2016/17 this will fund schemes falling under the following headings:

	2016/17 £'m	
Service changes and reductions (including redundancies)	2.000	The Council tracks the payback period for redundancy costs. It is estimated that for every £1 spent on redundancy costs within a 9 month period the Council saves £1.25.
Property rationalisation	0.500	Savings here relate to reductions in rent and associated property costs. It is estimated that this will release £0.600m per annum going forward. This programme of work will also contribute to the generation of capital receipts.
Efficiencies through contracting and procurement	1.200	Savings here are about reducing contract costs but also keeping future contract costs as low as possible (i.e. ensuring that growth in costs is kept to a minimum). Confirmed savings for 2016/17 already amount to £0.500m per annum, with a further £4.400m p.a. of contract tendering exercises due to conclude in 2016/17.
Transforming information technology	0.600	Improvements and efficiencies here may not easily convert directly into a reduction in spending, however, they will increase capacity and allow other savings to be delivered across other areas of the Council.
Preventing and detecting fraud	0.200	Again it is difficult to convert this work into a cashable saving, however this work protects the Council's finances.
TOTAL	4.500	

Impact on Prudential Indicators

Up to 1 April 2016 it has been the Council's policy to utilise all capital receipts generated in any financial year to fund the capital programme in that financial year (thus allowing the Council to keep the need for borrowing to a minimum). With the change in policy allowing utilisation of capital receipts to fund revenue spending on transformational projects the Council will stop using all capital receipts to fund the capital programme.

Diverting this money away from the capital programme does have a financial impact for the Council. Details on the Council's Prudential Indicators for 2016/17 (and future years) based on the above use of capital receipts to fund revenue transformation (£4.5m in 2016/17 and £8.0m in 2017/18 and 2018/19) rather than spend in the capital programme are set out in the Council's 2016/17 Budget Book at Appendix L (www.lincolnshire.gov.uk/budget). The Prudential Indicators demonstrate that the capital programme and associated financing remain affordable for the County Council.

This page is intentionally left blank