	REPORT TO CABINET TO BE HELD ON 13 SEPTEMBER 2016	
	Key Decision	**NO**
	Forward Plan Ref No	
Corporate Priority: **Meets all Corporate Priorities**	**Cabinet Portfolio Holder**	**Cllr Helen Mallory**

REPORT OF: DIRECTOR (NE) AND CHIEF EXECUTIVE– 16/194

WARDS AFFECTED: ALL

SUBJECT: BUDGET STRATEGY AND EFFICIENCY PLAN 2016-17 TO 2019-20

RECOMMENDATION (S):

That Cabinet:

(i) Approve the Council's Efficiency Plan (2017 to 2020);

(ii) Approve the acceptance of the Government's multi-year settlement offer covering the 2017/18, 2018/19 and 2019/20 financial years;

(iii) Note the details contained within the government consultation documents for the 100% retention of business rates income and Fair Funding Review; and

(iv) Note the Council's anticipated funding gap for the period from 2017 to 2020 and the proposed strategy for addressing the funding gap

REASON FOR RECOMMENDATION(S):

To accept the Government's multi-year finance settlement offer for the 2017/18, 2018/19 and 2019/20 financial years and protect the Council against possible further cuts in Central Government funding over that period.

HIGHLIGHTED RISKS:

That the Council does not accept the multi-year settlement offer and is subject to further funding cuts over the period to 2020.

1. INTRODUCTION

1.1 In December 2015 the Government announced the provisional finance settlement for 2016/17 alongside indicative settlement figures for the years up to and including 2020. The consultation document circulated alongside the provisional settlement set out that the indicative figures announced for the periods up to 2020 would be fixed for those authorities that: (a) choose to accept them and (b) publish an efficiency plan.

1.2 Each year the Council reviews and approves a Financial Strategy, which comprises a 5-year revenue plan and 10-year capital plan. The most recent Financial Strategy (2016 – 2026) was approved by Council in February 2016 and incorporated the indicative settlement figures up to 2020. At the time of presenting the Strategy neither the methodology for accepting the settlement figures or the format of the efficiency plan were known. Council delegated Cabinet the authority to accept the multi-year offer.

1.3 On 10 March 2016 the Secretary of State for Communities and Local Government issued a letter to authorities which provided further detail on the multi-year settlement and efficiency plans. Reassuringly the letter stated that the process for the acceptance of the multi-year offer and creation of the efficiency plan would be made 'as straight forward as possible' and the proposal 'was not about creating additional bureaucracy'. The letter confirmed that those authorities wishing to apply for the offer simply have to email or write to DCLG by Friday 14th October and include a link to their efficiency plan in that correspondence.

1.4 In the 2015 Autumn Statement the Government announced that by 2020 local authorities will retain 100% business rates income and alongside the 2016/17 Local Government Finance Settlement announced the Fair Funding Review, which will determine how each authority's funding needs assessment is calculated under the new business rates retention scheme. The implications of these significant changes in funding policy were not known at the time of drafting the 2016 Financial Strategy and the first consultation papers on the proposals were published in July 2016.

1.5 This report presents an update to the Financial Strategy 2016 – 2026 and sets out the outline budget strategy for the period 2018 to 2020 along with the Council's proposed Efficiency Plan for the same period; which in turn will allow the Council to accept the Government's four year settlement offer. The report also updates Members on the 100% business rates retention and funding consultation papers.

2. CORPORATE AIMS/PRIORITIES AND THE COMMUNITY PLAN

2.1 The proposals set out in this report impact on all the Council's Corporate Aims and Priorities.

3. BACKGROUND AND ISSUES

3.1 **Funding Gap 2016 – 2020**

3.1.1 The Financial Strategy agreed by Council in February 2016 delivered a balanced budget position for 2016-17 and projected a revenue funding gap of £5.572m over the period from 2017/18 to 2019/20 after making allowance for anticipated central government funding reductions, unavoidable budget growth and contingencies.

3.1.2 Those projections have been updated and the estimates now show a **funding gap of approximately £5m** over the equivalent period; with the reduction being largely attributable to changes in the levels of contingency allowance built into the projections.

3.1.3 The Council's core government funding streams comprise revenue support grant, a share of retained business rates income, new homes bonus and rural service and transitional grant. Table 1 below sets out the projected levels of these core funding sources over the Efficiency Plan period and shows that annual net funding is expected to reduce by £2.319m over the next 3 years.

Table 1 – Anticipated government funding reductions

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	TOTAL £'000
Revenue Support Grant	2,129	1,231	672	49	
Retained Business Rates	4,691	4,770	4,890	5,014	
New Homes Bonus	1,288	1,282	997	734	
Rural Services and Transitional Grant	23	16	13	16	
TOTAL GOVERNMENT FUNDING	**8,131**	**7,299**	**6,573**	**5,812**	
Net Government Funding Reduction		832	726	760	2,319

3.1.4 In addition to funding reductions the Council must also bear the costs of unavoidable costs and funding pressures that will arise over the period (e.g. inflationary cost increases, coast protection works, apprentice levy). It is expected that these cost pressures will be partially offset by increases in Council Tax levels arising from increases in the Council Tax precept and growth in housing numbers. Current projections anticipate that the Borough Council's precept will increase by 2% per annum and the number of Band D equivalent properties in the Borough will increase by 1% per annum. If these increases do not materialise, or are not approved, the net spending pressures will increase accordingly.

3.1.5 The anticipated levels of net funding pressures and the Council's projected funding gaps over the Efficiency Plan period are set out in Tables 2 and 3 below:

Table 2 – Net Spending Pressures

	2017/18 £'000	2018/19 £'000	2019/20 £'000	TOTAL £'000
Council Tax increases	(210)	(246)	(253)	
Spending pressures	1,714	832	827	
Net Spending Pressures	**1,504**	**586**	**574**	**2,664**

Table 3 – Projected Funding Gap

	2017/18 £'000	2018/19 £'000	2019/20 £'000	TOTAL £'000
Government funding reductions	832	726	760	
Net Spending pressures	1,504	586	574	
Funding Gap	**2,336**	**1,312**	**1,334**	**4,982**

3.2 Scope of the Government's Multi-Year Funding Offer

3.2.1 Table 1 above sets out the anticipated levels of government grant funding for the period covered by the multi-year offer (2017 to 2020). The offer made by the Government will fix the amounts of revenue support grant, rural services and transitional grant elements of the funding streams, which are all being phased out over the period. It does not apply to retained business rates income or new homes bonus funding.

3.2.2 The projected figures included within Table 1 for the funding sources covered by the multi-year offer are based on the indicative figures provided in the 2016/17 provisional settlement. The table shows that for this Council these sources of funding will reduce by £2.087million over the Efficiency Plan period (905k in 2017/18, £562k in 2018/19 and £620k in 19/20).

3.2.3 The government has stated that the figures contained within the multi-year offer are a guaranteed minimum for those authorities that choose to accept them. It will not make any such guarantee to those authorities that don't. Furthermore, despite retained business rates income shares being outside the multi-year settlement offer, recent government announcements have indicated that these could also be subject to change for those authorities that do not accept the offer.

3.2.4 Given the certainty that the acceptance of the offer will give the Council in relation to future funding streams, and the reduction in the risk of further funding cuts being applied, officers propose that the Government's multi-year offer be accepted.

3.3 Retained Business Rates

3.3.1 The current localised business rates scheme came into effect on 1 April 2013 and at that time represented a fundamental change in local government funding policy. Prior to its introduction all business rates income was paid over to central government. The income was pooled nationally and was then redistributed back to councils in the form of revenue support grant, based on the government's assessment of each authority's deemed funding need.

3.3.2 Under the current scheme business rates income is split equally into a local and central share. The central share is paid to central government and continues to be redistributed to councils in the form of revenue support and other grants, and the local share is retained by local authorities. A tariff and top-up mechanism exists within the system to balance an authority's local share of retained business rates income with the amount of funding the government deems it needs to fund its services. This ensures that areas do not lose out just because their local business rates are low compared to their assessed needs.

3.3.3 Where an authority's retained share of business rates exceeds their deemed funding need a tariff is payable and where an authority's retained share is less than its deemed funding need a top-up payment is received. This council is a tariff paying authority.

3.3.3 Within the current system local authorities that successfully increase their business rates income keep up to 50% of the growth, with tariff paying authorities becoming liable to pay a levy of up to 50% on this growth. The money raised from this levy is used to fund a safety net system, which protects those councils that see significant reductions in their business rates income in any one year.

3.3.4 The retained business rates income shown in the funding projections in Table 1 is based on the Government's assessment of the Council's deemed funding need baseline, which was determined when the localised scheme was introduced, plus £700k business rates growth which was taken into account in the Council's revenue budget to reduce cuts in service. This figure increases in line with RPI each year.

3.3.5 In July 2016 the government issued a consultation document on its proposals to allow local authorities to retain 100% business rates income by the end of the current parliamentary period. It is currently uncertain whether these proposals will come into effect in 2019/20 or 2020/21.

3.3.6 The key points to note from the consultation document are as follows:

- The new system will likely have strong similarities to the existing one and the current system of assessing an authority's funding need through the Local Government Finance Settlement and the tariff and top-up mechanism will likely stay;

- By allowing 100% business rates retention and phasing out government grants an additional £12.5 billion funding will be transferred to local authority control. In order to ensure the funding reforms are cost neutral £12.5 billion of new responsibilities will be devolved to local authorities to match the additional funding. A range of new responsibilities are suggested within the document, with the majority affecting upper tier / unitary authorities rather than lower tier ones. The proposal that could impact this Council are changes to the funding streams for the administration of Localised Support for Council Tax and Housing Benefit claims, although other suggestions could be put forward as part of the consultation process;

- The levy payable on business rates growth will be abolished and local authorities will retain 100% income from any growth in income;

- There will likely be a change in how business rates income is shared proportionally across different tiers of local government (e.g. SBC's retained share is currently 40%. It is highly unlikely that this share will increase from 40% to 80% as a result of the reforms and it may even reduce to reflect NYCC's funding responsibilities);

- The government is keen to retain some form of safety net mechanism to protect authorities from significant reductions in income, however is asking for suggestions on how this could be delivered and whether this could be done at regional / devolved / combined authority level rather than nationally;

- The scheme will likely include the ability for local authorities to reduce the levels of business rate charges in their area (by reducing the business rates multiplier) to incentivise business growth;

- Combined Authority areas with elected mayors may be given the power to levy a supplement on business rates to fund new infrastructure projects.

3.3.7 Responses to the consultation must be made by 26 September and officers will be preparing a response on behalf of the Council.

3.4 **Fair Funding Review**

3.4.1 As part of the 2016/17 Settlement the Government announced a 'Fair Funding Review' of council's relative needs and resources. This review will assess how much funding each authority is deemed to need; taking into account factors such as population, demographics, deprivation, sparsity, rurality and ability to generate Council Tax revenue.

3.4.2 The last funding needs assessment was carried out in 2013/14, however was largely focussed on updating the data used in the assessment rather than revising the areas factored into the calculation. The needs formula has not been thoroughly reviewed for over a decade and is now considered to be outdated.

3.4.3 A Fair Funding Review: Call for evidence paper was published alongside the Business Rates consultation paper and asks for feedback and suggestions for areas to be considered within the revised needs assessment. Responses will coincide with those for the business rates review and are due by 26 September.

3.3.4 The outcome of the Fair Funding Review will establish the Council's baseline level of retained business rates income under the 100% business rates retention scheme therefore is an extremely important determining factor in the levels of funding post 2020. The projections in Table 1 show that by 2020 the Council's deemed retained income from business rates will be approximately £5m and this figure could change substantially as a result of the review.

3.3.5 Historic analysis shows that this Council has fared particularly badly in recent years through the settlement process therefore it is hoped that the review of the needs analysis will address this. For example, analysis showed that 108 authorities saw an increase in their Core Spending Power in 2016/17 (i.e. Council Tax income plus core government funding) compared to a 3% reduction for this Council.

3.3.6 The Government has recognised in recent years that additional costs are associated with service delivery in rural areas and has introduced rural services grant funding to compensate authorities for these additional costs. These additional costs will likely be factored into the updated needs assessment. Worryingly, the sparsity weightings used to calculate historic rural grant allocations have meant that, despite the Borough containing large expanses of rural areas, the Council's share of the rural services grant funding is negligible (£21k in 2016/17). It is important therefore that representations are made by the Council to try to address this shortcoming as part of the review of the needs assessment. As a comparison, Ryedale and Hambleton received significant amounts of rural services grant funding and as a result their core spending power increased by 6.6% and 9.3% respectively in 2016/17 compared to Scarborough's 3% reduction.

3.3.7 Being a coastal resort the Council is also affected by additional cost pressures arising from tourism visitors (e.g. higher street cleansing costs) and coast protection schemes. This will also be factored into the Council's response in the hope that this will be considered in the revised assessment.

3.4 **New Homes Bonus**

3.4.1 In February 2011 the government published the proposals for New Homes Bonus (NHB); a scheme that was designed to incentivise local authorities to increase housing supply by rewarding them with a 6-year grant for each new house created within the area.

3.4.2 In its Spending Review and Autumn Statement 2015 the Government announced that it aimed to reduce NHB funding nationally by £800m over the Spending Review period and redirect those resources to adult social care. A technical consultation paper on the proposed changes to the distribution method was issued alongside the provisional settlement in December 2015 and responses to the consultation were expected to be published in spring 2016 along with the agreed scheme changes, however details have not yet been published.

3.4.3 Table 1 shows that the Council is anticipating NHB funding to reduce from £1.288m in 2016/17 to £734k in 2019/20 in recognition of the £800m top-slice from the national funding pot. The levels of NHB funding will be determined by the new scheme proposals but will still be driven by housing growth and are not covered by the government's multi-year settlement offer. Given that the new scheme details have not yet been published there is a risk that the income levels built into the budget projections will not be achieved, however it is hoped that large scale housing developments such as Middle Deepdale will help bolster the Council's funding allocations over the short to medium term.

3.5 Efficiency Plans

3.5.1 To accept the Government's multi-year settlement offer the Council is required to publish an efficiency plan. The letter received from the Secretary of State in March 2016 clarified that the format of efficiency plans are at each individual council's discretion however they must cover the full four year period up to 2020 and demonstrate how the greater certainty derived from the multi-year settlement can bring about opportunities for further savings. It also confirms that council's should collaborate with their local neighbours and public sector partners and link into devolution deals where appropriate.

3.5.2 Since the publication of the letter CIPFA and the LGA have pulled together some best practice guidance for the format of the Plan, which suggests the following:

- Every council in the country is different and each will have its own vision, policies, opportunities and challenges therefore no two efficiency plans will be identical;

- The cornerstone of the efficiency plan will likely be the financial strategy for the period covering the four year offer but the plan should not just be number / money driven. It should contain a short narrative that covers how the council will address the challenge of financial sustainability over the offer period and where it hopes to be at the end of the period;

- The document will likely be a 2-4 page narrative with links to documents which support this narrative;

- The document should make reference to any existing or planned partnership working and transformation projects and programmes;

- The Efficiency Plan should be submitted and jointly owned by the Chief Executive and Leader;

- Some major funding streams are not covered by the multi-year offer, while costs remain subject to unpredictable pressures, therefore the plan needs to allow for risk and provide for sufficient reserves and contingencies to allow these risks to be managed. A statement on the current level of reserves and how they are expected to move over the period of the plan should be included.

4. CONSULTATION

4.1 The details contained within this report will not specifically be consulted upon however consultations will take place for any budget savings proposals identified as part of the budget setting process.

5. ASSESSMENT

5.1 Budget Strategy 2017 to 2020

5.1.1 Table 3 in paragraph 3.1.5 sets out that the Council is facing a projected funding gap of £4.982m over the 3 year period from 2017/18 to 2019/20 (£2.336m in 2017/18, £1,312m in 2018/19 and £1.334m in 2019/20).

5.1.2 The Council's policy has always been to be as efficient as possible and protect front line services and since 2010 the Council has delivered savings of £14.9m from its annual revenue budget. Over that same period performance in many areas has increased.

5.1.3 Despite the funding reductions imposed in recent years the Council has continued to be been pro-active in stimulating and facilitating economic regeneration and housing growth within the Borough. This investment has delivered significant benefits including boosting the tourism offering across the Borough, job creation, the attraction of significant inward investment and will upskill the local workforce for years to come. In return the Council has seen an upturn in business rates income and has retained a proportion of that income through the localised business rates retention scheme.

5.1.4 Efficiencies and investment in regeneration will continue to play a significant part in the Council's budget strategy going forward.

5.1.5 The proposed strategy to address the Council's funding gap for the period to 2020 is as follows:

5.2 Income Inflation

5.2.1 It is proposed that income budgets be inflated by 2% per annum over the settlement period in recognition that fees should increase in line with RPI. Service Unit Managers will be set targets to manage these inflationary increases across their service area.

5.2.2 It will be recognised that any increases applied to fees and charges should be driven by market forces and not the target increase therefore prices will not necessarily increase by 2% as a result of this proposal; particularly where the increase could ultimately reduce unit sales and overall income. The additional income could instead be delivered by increasing the demand for the service. Similarly, where demand for a service is high prices may be increased by more than 2% to ensure Council income is maximised.

5.2.3 In some cases investment in a service area may be required to increase demand and income may actually be maximised by reducing current fees and charges.

5.2.4 The achievement of a 2% per annum increase in income will reduce the funding gap by £816k over the 3 year period to 2020 (£272k per annum).

5.3 **Review of 2015/16 outturn position**

5.3.1 The Council's financial outturn position for 2015/16 is covered by a separate report on this agenda and details a headline underspend of £765k. It is important that the Council is not overly prudent in its budget setting approach and unnecessarily reduces service levels to bridge the funding gap when some budgets are overstated and could simply be reduced.

5.3.2 An exercise will be undertaken to review the savings that contributed towards the 2015/16 underspend with a view to including overstated areas as savings where they are expected to recur and haven't already been taken into account. A high level review of the areas has already been undertaken and it is anticipated that as much as £0.5million could be found from within existing budgets from this piece of work.

5.4 **Transformational Efficiencies and Commercialisation**

5.4.1 The Council has established a Transformation Working Group, which aims to challenge existing working practices and put new processes and systems in place to create future efficiencies. The Transformation programme will form the cornerstone of the Council's budget savings agenda over the efficiency plan period.

5.4.2 The Transformation Working Group is led by the Council's Chief Executive and, alongside a project lead officer, includes Services Unit Manager representatives from finance, audit, human resources, customer services and IT. A Transformation Board consisting of officers and members has also been established and will oversee the work of the group.

5.4.3 A number of business analysts have been seconded from service areas within the Council to assist the Transformation Working Group and undertake service reviews.

5.4.4 The overarching themes of the transformation programme are as follows:

- **Digitalisation** (to reduce the costs and administration associated with paper storage);

- **Customer self-service** (by offering easy to use, 24 hour access to online information and request forms for those customers that wish to use them);
- **End to end paperless solutions** (ensuring that online customer requests seamlessly integrate with back office systems to avoid the re-keying of information);
- **Single Truth databases** (to stop duplicate, contradictory information being maintained across the Council);
- **Improved Customer Service** (by keeping customers informed when they request information or services from the Council and make more services available online);
- **Commercialisation and Joint Working** (to determine whether service areas could increase existing income sources or sell their services to external customers)

5.4.5 A small number of transformational efficiency reviews have already commenced and a detailed review of the budgets for those services have identified that a minimum of £0.5m savings should be delivered from those service areas in 2017/18. Additional savings will be identified as further reviews commence and the work of the group progresses and evolves.

5.5 Investment to support economic growth

5.5.1 The Council will continue to prioritise and invest in economic growth and this will play a key role in the Council's budget strategy over the efficiency plan period. This in turn should deliver significant financial benefits for the Borough in terms of retained business rates income and job creation.

5.5.2 Exciting projects and schemes which the Council has been involved in and, where relevant, will continue to pursue include:

- Offshore Wind
- Potash
- Middle Deepdale housing development and regeneration
- Leisure Village
- Sands Development
- Coventry University development
- University Technical College development
- Development of the Business Parks at Whitby and Scarborough
- Redevelopment of the Futurist Theatre site

5.5.3 These schemes demonstrate the Council's long term commitment and investment in economic growth. It is hoped that this investment will continue to derive long term financial benefits to the Council in terms of increased business rates income over the efficiency plan period and beyond.

5.5.4 It is proposed that any business rate growth over and above the £700k already built into the base revenue budget will be earmarked to provide investment in the Council's regeneration programme or Investment Fund (see section 5.7 below for further details). This will assist the Council in delivering its key transformational and economic growth aspirations.

5.6 **Strategic review of the Council's role in the delivery of services and use of assets**

5.6.1 The Council has been pro-active in recent years in reviewing the delivery of its services and working in partnership with other public sector bodies and external partners to change the way in which services are delivered. Given the uncertainties relating to the devolution agenda across the Yorkshire area the Council will continue to pursue these opportunities over the efficiency plan period.

5.6.2 The Council is not averse to outsourcing services to third party operators where it delivers benefits in terms of financial savings and service improvements. This is demonstrated by the decisions taken in recent years to outsource the museums service, entertainment venues and leisure facilities. Outsourcing opportunities will continue to be considered over the efficiency plan period where there is a potential to derive tangible benefits; however experience from past outsourcing exercises suggests that, on occasion, minimal interest was expressed by service providers due to the Borough's geographic location and distance from major conurbations.

5.6.3 The Council already works in partnership with a range of public sector bodies to deliver services. Examples include the North Yorkshire Building Control Partnership, North Yorkshire Procurement Partnership, County-wide parking scheme, Home Improvement Agency and police and health multi-agency teams. Partnership working will continue to be reviewed and prioritised however it is recognised that political and geographical constraints with neighbouring authorities can impact on the Council's ability to pursue this option.

5.6.4 The Council generates an important income stream from its commercial asset portfolio and has increased income, usage and the occupation of public buildings by actively exploring co-location opportunities with public sector partners such as the Clinical Commissioning Group, police and health multi-agency teams and the coroner's court service. These opportunities will continue to be explored over the Efficiency Plan period. In addition the Council will review its operational property portfolio with a view to rationalising asset holdings and disposing of any that are surplus to requirements to generate efficiency savings in future years.

5.6.5 Given the extent of recent and future funding cuts a general downsizing of Council run services is considered inevitable. The Council will continue to review the types of services it delivers over the efficiency plan period, particularly where those services are not statutory and do not deliver significant economic development benefits. Cuts in service will however be considered as a last resort and will only be pursued after all efficiency and partnership working opportunities have been reviewed. The Council will strive to work with local organisations and support them in taking on the operation of

Council run services where it could be beneficial for them to do so. This will be supported by the Council's established Community Asset Transfer Plan.

5.6.6 In 2015 the Council reviewed its role in the provision of Tourist Information Centres and a review of public convenience provision across the Borough is underway. Savings from these reviews have not yet been taken into account in the budget and could deliver as much as £400k over the efficiency plan period (estimated £200k 2017/18, £100k 2018/19 and £100k 2019/20).

5.7 **Use of Reserves and Investment Fund**

5.7.1 The financial projections show that the funding gap for 2017/18 is significantly higher than the funding gap identified for the following two years. Given that the transformation review programme will take time to evolve and identify savings it is proposed that £0.5m reserves be utilised in 2017/18 to reduce the level of savings required in that year and equalise the savings targets over the 3 year period.

5.7.2 The 2016 Financial Strategy established an Investment Fund of £594k to provide one off funding for schemes that will help the Council to deliver revenue savings in 2016/17 and beyond, and the outturn report proposes that a further £626k be transferred to the reserve from the 2015/16 year-end underspend.

The following indicative bids have already been approved from the fund:

- £93k Phase 1 - new Whitby kiosks
- £82k Phase 2 – new Whitby kiosks
- £88k Restructure of TIC provision across the Borough
- £15k Transformation training / equipment expenditure etc.

5.7.3 The £0.5m draw from reserves proposed for 2017/18 will be funded from the Investment Fund. After allowing for the areas of expenditure already approved, the proposed transfer of year end underspend and the £0.5m draw required in 2017/18 the uncommitted balance of the Investment Fund will stand at £442k.

Examples of areas that may require future funding from the monies are as follows:

- The creation of an MOT test centre at Dean Road Depot
- The purchase of equipment for use at the travellers site rather than hiring equipment in annually
- The review of public conveniences
- Investment in transformation initiatives

5.7.4 Each year the Council reviews its earmarked reserves to free up monies that are no longer required. Given the scale of efficiency savings that will be required over the next 3 years any monies identified through this process will be transferred into the Investment Fund.

5.8 **Use of capital receipts**

5.8.1 The Government has announced greater flexibility for Councils in how they can make use of capital receipts (i.e. money received when an asset such as land or buildings are sold). Historically Councils were only allowed to spend such receipts on capital investment but the new flexibility allows the receipts to be used on any expenditure that could reform future service delivery, be it revenue or capital in nature.

5.8.2 The Council's currently available capital resources are fully committed however this type of investment will be considered in future should capital receipts become available.

5.9 **Summary**

5.9.1 The table below provides a high level indication of the savings identified to date and the indicative residual funding gap that still needs to be addressed within the budget.

Table 4 – Residual Funding Gap

	Report Ref	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**
Funding Gap	3.1.5	2,336	1,312	1,334
Income Inflation	5.2	(272)	(272)	(272)
Review of 2015/16 outturn	5.3	(500)		
Efficiencies and Transformation	5.4	(500)		
Review of Service Delivery	5.6	(200)	(100)	(100)
One-off use of Reserves	5.7	(500)	500	
FUNDING GAP		**364**	**1,440**	**962**

5.9.2 The table shows that at this time the funding gap for 2017/18 is estimated to be £364k, although it should be recognised that the savings identified within the table have not yet undergone a detailed assessment and may not be achieved in their entirety.

5.9.3 The efficiency and transformational savings included within the above projections relate to specific areas that have been identified to date and a number of other reviews will be commencing in the coming weeks. The savings from these reviews are therefore expected to increase substantially over the 3 year period and will be expected to contribute significantly to the 2018/19 and 2019/20 shortfalls.

5.10 **Efficiency Plan**

5.10.1 The Council's Efficiency Plan is attached at Appendix B and incorporates the budget strategy proposals identified above. Members are recommended to approve the format and content of the Efficiency Plan to allow the Government's multi-year finance settlement offer to be accepted

6. IMPLICATIONS

6.1 Policy

There are no policy implications arising from this report

6.2 **Legal**

There are no legal implications arising from this report.

6.3 **Financial**

The financial implications are set out in detail throughout the report.

6.3 Staffing Implications

Staffing implications will likely arise over the Efficiency Plan period as a result of the need to reduce costs in line with the funding reductions. Where possible any such staffing reductions will be managed through natural staff turnover. A key aspect of the transformation agenda is to pursue commercial opportunities therefore savings may be delivered by utilising any identified staffing capacity to generate increased income rather than through staffing reductions.

6.4 Environmental, Planning Implications, Crime and Disorder Implications, Health and Safety implications.

There are no direct implications arising from this report

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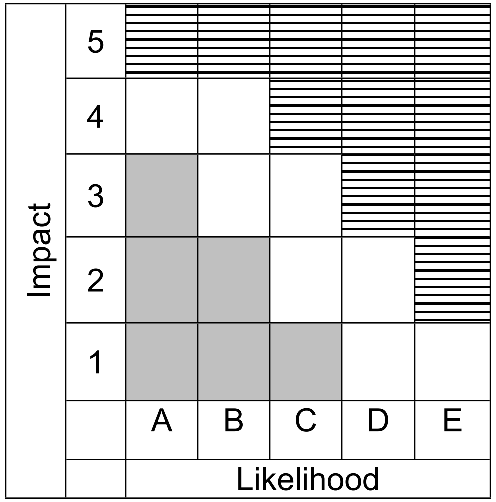
Risk Matrix

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
1	Aug 16	The Council does not accept the multi-year offer and the government reduces the funding offer	▪ Less funding to run services ▪ Cuts in service levels ▪ Unplanned draws from reserves	▪ Accept the offer	A3	A3		
2	Aug 16	The areas set out in the budget strategy do not deliver the level of savings required to balance the funding gaps over the Efficiency plan period	▪ Cuts in service levels ▪ Inability to deliver statutory services ▪ Unplanned draws from reserves ▪ Council's financial standing deteriorates	▪ Transformation Board ▪ Retention of adequate levels of reserves ▪ Financial Strategy and Plans	C4	C2	Corporate Finance Manager	Financial Strategy
3	Aug 16	Council's financial standing is severely jeopardised as a result of the funding cuts	▪ Cuts in service ▪ Deterioration in quality of statutory services ▪ Insufficient funds to invest in regeneration of Borough	▪ Retention of adequate levels of reserves ▪ Inclusion of contingency budgets in financial projections ▪ Long term Financial Strategy and Plans	B4	B2	Corporate Finance Manager	Financial Strategy

Risk Scoring



<u>Likelihood</u>:
A = Very Low
B = Not Likely
C = Likely
D = Very Likely
E = Almost Certain

<u>Impact</u>
1 = Low
2 = Minor
3 = Medium
4 = Major
5 = Disaster

APPENDIX B

SCARBOROUGH BOROUGH COUNCIL

EFFICIENCY PLAN 2016 TO 2020

1.0 This Plan has been developed so that the Council can apply for a four-year funding settlement from the Government and also benefit from some flexibility in the use of capital receipts. The acceptance of the four-year settlement will improve financial planning and will aid the medium term financial stability of the Council.

2.0 This Efficiency Plan is a summary of the appropriate sections of the Council's Financial Strategy 2016 – 2026 and Property asset Management Strategy 2016 – 2020, which were approved by the Council in February 2016. These documents can be found below:

Financial Strategy 2016 – 2026

http://democracy.scarborough.gov.uk/ecSDDisplay.aspx?NAME=Financial%20Strategy%202016-2026&ID=1348&RPID=5947680&sch=doc&cat=636&path=551%2c636

Property Asset Management Strategy 2016 – 2020

http://democracy.scarborough.gov.uk/ecSDDisplay.aspx?NAME=Property%20Asset%20Management%20Strategy%202016-2020&ID=1349&RPID=5947685&sch=doc&cat=636&path=551%2c636

3.0 This Plan includes three themes:

- Our approach to delivering the levels of savings required to balance the budget in each year of the Efficiency Plan;
- Our policy on reserves;
- How new flexibilities in the use if capital receipts will be considered; and
- Prudential Indicators for 2016/17 to ensure the Council's borrowing is affordable in the medium to long term

4.0 Balancing the Budget

4.1 The Council's policy has always been to be as efficient as possible and protect front line services and since 2010 the Council has delivered savings of £14.9m from its annual revenue budget. Over that same period performance in many areas has increased. Going forward the Council is facing a projected funding gap of £4.982m over the 3 year period from 2017/18 to 2019/20.

4.2 Despite the funding reductions imposed in recent years the Council has continued to be been pro-active in stimulating and facilitating economic regeneration and housing growth within the Borough. This investment has delivered significant benefits including boosting the tourism offering across the Borough, job creation, the attraction of significant inward investment and will upskill the local workforce for years to come. In return the Council has seen an upturn in business rates income and has retained a proportion of that income through the localised business rates retention scheme.

4.3 Efficiencies and investment in regeneration will continue to play a significant part in the Council's budget strategy going forward.

4.4 The proposed strategy to address the Council's funding gap for the period to 2020 is as follows:

4.5 **Review of existing budgets and previous year's outturn position**

4.5.1 The Council's financial outturn position for 2015/16 showed a significant underspend. It is important that the Council is not overly prudent in its budget setting approach and unnecessarily reduces service levels to bridge the funding gap when some budgets are overstated and could simply be reduced.

4.5.2 An exercise will be undertaken to review the savings that contributed towards the underspend with a view to including overstated areas as savings where they are expected to recur and haven't already been taken into account. A high level review of the areas has already been undertaken and it is anticipated that as much as £0.5million could be found from within existing annual budgets from this piece of work.

4.6 **Transformational Efficiencies and Commercialisation**

4.6.1 The Council has established a Transformation Working Group, which aims to challenge existing working practices and put new processes and systems in place to create future efficiencies. The Transformation programme will form the cornerstone of the Council's budget savings agenda over the efficiency plan period.

4.6.2 The Transformation Working Group is led by the Council's Chief Executive and, alongside a project lead officer, includes Services Unit Manager representatives from finance, audit, human resources, customer services and IT. A Transformation Board consisting of officers and members has also been established and will oversee the work of the group.

4.6.3 A number of business analysts have been seconded from service areas within the Council to assist the Transformation Working Group and undertake service reviews.

4.6.4 The overarching themes of the transformation programme are as follows:

- **Digitalisation** (to reduce the costs and administration associated with paper storage);
- **Customer self-service** (by offering easy to use, 24 hour access to online information and request forms for those customers that wish to use them);
- **End to end paperless solutions** (ensuring that online customer requests seamlessly integrate with back office systems to avoid the re-keying of information);
- **Single Truth databases** (to stop duplicate, contradictory information being maintained across the Council);
- **Improved Customer Service** (by keeping customers informed when they request information or services from the Council and make more services available online);

- **Commercialisation / Joint working** (to determine whether service areas could increase existing income sources or sell their services to external customers)

4.7 **Investment to support economic growth**

4.7.1 The Council will continue to prioritise and invest in economic growth and this will play a key role in the Council's budget strategy over the efficiency plan period. This in turn should deliver significant financial benefits for the Borough in terms of retained business rates income and job creation.

4.7.2 Exciting projects and schemes which the Council has been involved in and, where relevant, will continue to pursue include:

- Offshore Wind
- Potash
- Middle Deepdale housing development and regeneration
- Leisure Village
- Sands Development
- Coventry University development
- University Technical College development
- Development of the Business Parks at Whitby and Scarborough
- Redevelopment of the Futurist Theatre site

4.7.3 These schemes demonstrate the Council's long term commitment and investment in economic growth. It is hoped that this investment will continue to derive long term financial benefits to the Council in terms of increased business rates income over the efficiency plan period and beyond.

4.7.4 Any business rate growth over and above the levels already accounted for within the Council's revenue budget will be earmarked to provide investment in the Council's regeneration programme or Investment Fund (see section 5.7 below for further details). This will assist the Council in delivering its key transformational and economic growth aspirations.

4.8 **Strategic review of the Council's role in the delivery of services and use of assets**

4.8.1 The Council has been pro-active in recent years in reviewing the delivery of its services and working in partnership with other public sector bodies and external partners to change the way in which services are delivered. Given the uncertainties relating to the devolution agenda across the Yorkshire area the Council will continue to pursue these opportunities over the efficiency plan period.

4.8.2 The Council is not averse to outsourcing services to third party operators where it delivers benefits in terms of financial savings and service improvements. This is demonstrated by decisions taken in recent years to outsource the museums service, entertainment venues and leisure facilities. Outsourcing opportunities will continue to be considered over the efficiency plan period where there is a potential to derive tangible benefits; however experience from past outsourcing exercises suggests that, on occasion, minimal interest was expressed by service providers due to the Borough's geographic location and distance from major conurbations.

4.8.3 The Council already works in partnership with a range of public sector bodies to deliver services. Examples include the North Yorkshire Building Control Partnership, North Yorkshire Procurement Partnership, County-wide parking scheme, Home Improvement Agency and police and health multi-agency teams. Partnership working will continue to be reviewed and prioritised however it is recognised that political and geographical constraints with neighbouring authorities can impact on the Council's ability to pursue this option.

4.8.4 The Council generates an important income stream from its commercial asset portfolio and has increased income, usage and the occupation of public buildings by actively exploring co-location opportunities with public sector partners such as the Clinical Commissioning Group, police and health multi-agency teams, and coroner's court. These opportunities will continue to be explored over the Efficiency Plan period. In addition the Council will review its operational property portfolio with a view to rationalising its asset holdings by disposing of any that are surplus to requirements to generate efficiency savings in future years.

4.8.5 Given the extent of recent and future funding cuts a general downsizing of Council run services is considered inevitable. The Council will continue to review the types of services it delivers over the efficiency plan period, particularly where those services are not statutory and do not deliver significant economic development benefits. Cuts in service will however be considered as a last resort and will only be pursued after all efficiency and partnership working opportunities have been reviewed.

4.8.6 The Council will strive to work with local organisations and support them in taking on the operation of Council run services where it could be beneficial for them to do so. This will be supported by the Council's established Community Asset Transfer Plan.

4.9 Use of Reserves and Investment Fund

4.9.1 Financial projections show that the funding gap for 2017/18 is significantly higher than the funding gap identified for the following two years. Given that the transformation review programme will take time to evolve and identify savings it is proposed that £0.5m reserves be utilised in 2017/18 to reduce the level of savings required in that year and equalise the savings targets over the 3 year period.

4.9.2 The 2016 Financial Strategy established an Investment Fund to provide one off funding for schemes that will help the Council to deliver revenue savings in 2016/17 and beyond, and further contributions were made to the reserve from the 2015/16 year-end underspend. The £0.5m draw from reserves proposed for the 2017/18 yaer will be funded from this reserve.

4.9.3 Each year the Council reviews its earmarked reserves to free up monies that are no longer required. Given the scale of efficiency savings that will be required over the next 3 years any monies identified through this process will be transferred into the Investment Fund.

5.0 Reserves Policy

5.1 The Council's reserves policy is set out within the Council's Financial Strategy and includes criteria for the optimum ranges of specific categories of reserves.

5.2 The Council has no plans to change the currently applied optimum ranges over the Efficiency Plan period.

6.0 **Use of capital receipts**

6.1 The Government has announced greater flexibility for Councils in how they can make use of capital receipts (i.e. money received when an asset such as land or buildings are sold). Historically Councils were only allowed to spend such receipts on capital investment but the new flexibility allows the receipts to be used on any expenditure that could reform future service delivery, be it revenue or capital in nature.

6.2 The Council's currently available capital resources are fully committed however this type of investment will be considered in future should capital receipts become available.

7.0 **Prudential Indicators**

7.1 The Treasury Management Strategy and Prudential Indicators set out the Council's prudential indicators for 2016/17 and are included within the Council's Financial Strategy 2016 - 2026 document, which was approved in February 2016.

7.2 These indicators are designed to ensure that the Council's capital borrowing is affordable and does not place undue burden on the Council's revenue budget or Council Tax payers.