Chichester District Council

THE CABINET **6 September 2016**

Deficit Reduction Plan

1. Contacts

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2. Executive Summary

The Council's financial model illustrates that savings in the region of £2.5m are required to balance the Council's budget over the next 5 years. If new policy initiatives are included then the deficit will increase to £3.8m. This report sets out a number of proposals to eliminate the deficit over that period.

3. Recommendation

3.1. That the Cabinet (1) approves the Deficit Reduction Plan of £3.8m set out in Appendix 2 to the report for eliminating the budget deficit and (2) recommends to the Council that it authorises the Head of Finance and Governance to submit a request to the Department of Communities and Local Government for a four-year settlement and that this Deficit Reduction Plan is used as the basis for that request.

4. Background

4.1. In May 2013 Cabinet approved a Deficit Reduction Plan of £2.4m to eliminate the predicated budget deficit shown in its 5-year financial model at that time. During this period (2013-2016) the Council has achieved revenue savings of £2.2m and has generated additional income of £1.4m (£1.2m more than expected). Appendix 1 details the savings and additional income generated over the last six years.

4.2. It has also managed to maintain low Council Tax increases, protect its front-line services and invest in new services, such as the Grange Centre Midhurst, despite reductions in Government funding and increases in cost pressures during this period.

4.3. This level of savings could not have been achieved without the dedication and determination of officers and Members to see through some difficult and challenging decisions.

4.4. Despite exceeding the targets set out in the 2013 Deficit Reduction Plan the financial forecast still looks austere and variable. The Financial Strategy and Plan 2016/17, approved by Council in December 2015, anticipated further

government funding reductions over the next five-years. It also identified a number of other risks that could affect the financial position of the Council. These included:

(i) *Full localisation of business rates:* The Government has announced that business rates will be fully localised by 2020. At the moment the current income retained from business rates is £1m more than our baseline funding. There is a risk that, with full localisation, the amount we are able to retain will be reset to a new, as yet undefined, baseline position. Appendix 2 has been amended to reflect the potential reduction from £3m business rate income to the existing baseline of just over £2m;

(ii) *Anticipated changes to New Homes Bonus funding:* This source of funding is also under review with the Government's stated objective of reducing the overall cost by one third. The 2016/17 value of this grant is £3.7m. This Council has, however, followed the discipline of not relying on this source of funding, which was always perceived to be at risk, to fund core services;

(iii) *The Council's reliance on income from fees and charges:* The Council currently relies on over £16m of income from fees and charges to help support the cost of delivering its services. Many of these income streams either represent discretionary spend or are linked to the state of the economy. The Council is, therefore, at risk that a downturn in the economy would result in a reduction in income from service users and

(iv) *Amended Waste Regulations and increased recycling targets*: here local authorities are under an obligation to increase recycling to 50%. It is unclear at present what the expected costs associated with these obligations will be. £800k has been allowed for in the plan and this figure will be firmed up when the Recycling Action Plan is approved.

4.5. Taking into account these issues, together with further reductions in funding and increased costs, the Financial Strategy report signified that the Council would be in a deficit position in the latter years of the Strategy if no further action was taken.

4.6. The Government has indicated that it would offer a four year finance settlement for those Councils who had an approved Efficiency Plan in places, this report will form the efficiency plan. The current offer would see Revenue Support Grant (RSG), currently worth £0.8m per annum, end altogether after 2017/18. At the same time we would see a funding adjustment, via the business rate tariff, of £0.6m by 2019/20, giving a combined reduction in funding of over £1.4m per annum. If the Council wishes to submit a request for the four-year funding deal it needs to submit its request by 14 October. Although the settlement offer represents significant reductions in funding, the alternative may well be worse and would leave us with greater uncertainty when trying to balance our finances over the medium term.

5. Outcomes to be achieved

5.1. A balanced budget from 2017 to 2022 that will enable the Council to continue providing important value for money services to communities and others in Chichester District

5.2. An approved Deficit Reduction Plan that focuses on achieving efficiencies by:

i. Modernising services;
ii. Reducing management levels; and
iii. Sharing with other agencies and, where appropriate, working with partners, the third sector and the private sector to provide services.

The Deficit Reduction Plan will form the Efficiency Plan that will be used to secure a four-year settlement from Government.

5.3. Maintaining front-line services where possible.

6. Proposal

6.1. The latest five-year model (see Appendix 2) shows a current deficit of £2.5m and, although no final decisions have been made, it is estimated that the deficit will increase to £3.8m if the Council approves, in due course, the new policy areas as set out in Appendix 2 under the heading of Policy Decisions.

6.2. Over the last couple of months officers have been discussing a number of proposals that could meet the outcomes set out in section 5, above. Appendix 2 sets out those proposals.

6.3. Most proposals are for noting as they have already been approved by the Cabinet or the Council, or are internal efficiencies not requiring approval to proceed. However, the following proposals are subject to further reports/explanation:

(i) *Business Improvement Programme Board:* these relate to efficiency savings created by New Ways of Working and the digitisation of some services;

(ii) *Commercial Programme Board:* these relate to projects that Council has already approved. They will generate additional income, such as the Enterprise Gateway and Barnfield Drive, and future savings from the outsourcing of the Council's Leisure Centres. Further opportunities may arise from the Southern Gateway project, the City Vision, the WSCC Road Space Audit and other investment opportunities. However, these have not been assessed and therefore it would be premature to include them in the Deficit Reduction Plan at this stage;

(iii) *Local Authority Property Fund (LAPF):* officers have authority to invest up to £10m in the LAPF and, as a result, £5m was invested in February at current returns of 4.45%. However, in the light of the EU Referendum result, officers and their advisors, Arlingclose, are

considering alternative investment opportunities to balance the risk to this potential exposure. It should be noted that the LAPF is a long-term investment and still provides very good income returns in excess of what could be achieved by alternative investments open to the Council. Any new investment, either in the LAPF or elsewhere, will be subject to due diligence and signed off by the Head of Finance and Governance.

(iv) *Guildhall income:* permissions to install lighting and heating in the Guildhall have now been secured which should enable the generation of year round income that exceeds current seasonal income.

(v) *Procurement:* Heads of Service, together with support from the Council's Procurement Officer, have undertaken a procurement review and have identified £250k of savings per annum, by re-tendering for services or by changing the specification. None of these changes will impact directly on service standards. There are, potentially, further opportunities to achieve greater savings, but more work is required to ascertain whether they are realisable.

(vi) *Asset Replacement Programme:* The Council sets aside £1.4m per annum into the Asset Replacement Fund. This Fund is used to pay for future replacement of assets such as vehicles, premises and major items of equipment etc and the total amount in the fund on 31 March 2016 was £7m. The Head of Finance and Governance has confirmed that the current fund contains sufficient money to replace our current assets over a 25-year period. The Executive Director with support from Heads of Services and managers has undertaken a review which has identified a £198k per annum reduction in the Council's annual contribution to the Asset Replacement Fund by extending life cycles, utilising modern technology and changing specifications etc. Officers have confirmed that these changes will not directly impact the delivery of services.

(vii) *Succession Planning:* The Chief Executive is proposing to put in place a succession plan for her current management team. This is subject to a separate report to Cabinet in November 2016.

7. Alternatives that have been considered

7.1. The Council has the option to use New Homes Bonus (NHB) to fund the budget deficit. At its meeting in December 2012 the Council agreed that, in principle, NHB should be reserved for community and other uses, rather than be used to fund existing services. This policy decision is still in place and, given the uncertainty about future NHB funding, it is not recommended that this source of income is used to fund on-going revenue expenditure. The proposals set out in Appendix 2, if implemented, avoid the need to use NHB to balance the Council's budget.

7.2. The five year financial model assumes that Council Tax, for a Band D property, is increased by £5 per annum in 2017/18 and then by 2% thereafter. If the actions set out in this report are taken, Council Tax increases could be limited to

2%. However, if the financial situation was to deteriorate and/or we do not achieve all of the actions set out in the Deficit Reduction Plan, the Council has the option to increase Council Tax by £5 per annum. This would generate £0.94m over the Plan period, and £0.37m per annum by 2021/22. Conversely, if the Council decided to freeze Council Tax from 2018/19 onwards, the reduction in income over the plan period would be £1.62m, and the deficit by 2021/22 would be £0.65m per annum thus requiring us to find further savings. Any decision on increases to Council Tax will be taken on an annual basis as part of the budget setting process.

8. Resource and legal implications

8.1. Over the next five years the Council will need to make savings or generate additional income in the region of £2.5m and, if the policy items are approved, this would increase to £3.8m.

8.2. There is a legal requirement to have a balanced budget.

9. Consultation

9.1. Staff consultation – the Chief Executive produces a monthly staff newsletter and holds briefing sessions to keep staff informed of changes. Regular meetings, including the Joint Employee Consultative Panel (JECP), also take place with the Union and staff representatives on any proposed changes. Additionally, where individual jobs are at risk, the Council's Employment Stability Policy is followed.

9.2. Community and Member Consultation – where there is an impact on the community from an individual service review, the community and Members will be consulted.

10. Community impact and corporate risks

10.1. It is not possible to predict with absolute certainty what the Council's budget position will be over the next five years. What is clear, however, is that we continue to live in a very uncertain world and things can change quickly, potentially significantly altering our predictions. At the time of writing this report the impact of 'Brexit' on local authority funding and on the wider economy, is still not clear. Over the coming months, as the Government sets out its negotiating position, we hope things will become more apparent. However, it is clear that the Council will need to remain flexible and be in a position to adapt if our predicated budget position should worsen.

10.2. Although there are risks that some of our proposals may not be achieved and/or the economy worsens, there are still opportunities to generate additional income or reduce our costs. These are not included in the current Deficit Reduction Plan but, as soon as they have been worked up in sufficient detail these proposals, where appropriate, will be subject to future reports to Cabinet. In addition, some proposals in the Deficit Reduction Plan may generate further savings.

11. Other Implications

	Yes	No
Crime and Disorder		X
Climate Change		X
Human Rights and Equality Impact An equalities impact assessment, where appropriate, will be completed where there are significant changes to the service.		X
Safeguarding and Early Help		X
Other		X

12. Appendices

12.1. Appendix 1: savings and additional income generated over the last six years
12.2. Appendix 2: latest five-year financial model and deficit reduction programme.

13. Background Papers

13.1 None