Report to	Council	**Item**
	27 September 2016	8
Report of	Chief finance officer	
Subject	Four year financial sustainability plan	

Purpose

To propose for approval the draft four year financial sustainability plan to meet the requirements of the four year efficiency plan and flexible use of capital receipts strategy.

Recommendations

To:

1. approve cabinet's recommendation of 14 September that the council pursues the offer of a four year funding settlement by publishing an efficiency plan by 14 October 2016 and sending a link thereto to the Department for Communities and Local Government; and

2. approve the draft four year financial sustainability plan as recommend by cabinet to meet the requirements of both the four year efficiency plan and flexible use of capital receipts strategy.

Corporate and service priorities

The report helps to meet all the corporate priorities.

Financial implications

The government has offered local authorities the opportunity to achieve greater certainty and confidence in funding levels through the offer of a four year funding settlement for 2016-17 to 2019-20 subject to the submission of an "efficiency plan". This draft four year financial sustainability plan sets out to meet the requirements of such an efficiency plan and includes indicative income increases, savings and anticipated cost pressures for 2017/18 to 2020/21 being addressed through the council's transformation programme.

Ward/s: All wards

Cabinet member: Councillor Stonard – Resources and business liaison

Contact officers

Justine Hartley, chief finance officer 01603 212440

Background documents

Four year financial sustainability plan, cabinet 14 September 2016

Report

Background

Four Year Efficiency Plan

1. The Local Government finance settlement for 2016-17 introduced the opportunity to achieve greater certainty and confidence in funding levels through the offer of a four year funding settlement for Local Authorities for 2016-17 to 2019-20 subject to the submission of an "efficiency plan". This was followed by a letter in March 2016 to all Council leaders from Greg Clarke, Secretary of State for Communities and Local Government, setting out further details but stressing that he wanted the offer, and the production of an efficiency plan, to be as simple and straightforward as possible.

2. The offer is optional but the letter states that "Those councils that choose not to accept the offer, or do not qualify, will be subject to the existing yearly process for determining the local government finance settlement. Allocations could be subject to further reductions dependant on the fiscal climate and the need to make further savings to reduce the deficit."

3. The Government has not issued detailed guidance on the contents of an efficiency plan but the Local Government Association have joined together with CIPFA to provide some top tips on what a plan should include.

4. The offer applies to funding from revenue support grant, transitional funding and rural services delivery grant. The council does not receive either of the latter grants but the figures set out in the finance settlement for revenue support grant are set out below.

Year	2016-17	2017-18	2018-19	2019-20
Indicative revenue support grant funding	£2,567k	£1,671k	£982k	£213k

5. Interest in accepting the offer will only be considered if a link to a published efficiency plan is received by 5pm on Friday 14th October.

Flexible use of capital receipts

6. In the Spending Review 2015, the Chancellor of the Exchequer announced that "to support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue cost of reform projects". This flexibility is available for the financial years commencing 1st April 2016, 2017 and 2018.

7. For the relevant financial years local authorities are expected to prepare a flexible use of capital receipts strategy. The strategy does not need to be a separate document, and the requirement can be satisfied by including relevant documents within the annual budget documents, as part of a mid term financial plan, or as part of the efficiency plan that local authorities who sign up to the four year settlement deals are required to produce.

Draft financial sustainability plan

8. In response to these offers a draft four year financial sustainability plan has been prepared to meet both the requirements of the four year efficiency plan and the flexible use of capital receipts strategy. This is attached as an annex to this report. The draft was considered by cabinet on 14th September 2016 and recommended to council for approval.

9. The plan references:

   a) the council's efficiency journey to date;

   b) the council's visions, priorities and core values as set out in the corporate plan;

   c) the medium term financial strategy and transformation programme;

   d) the use of reserves including the council's policy to smooth the savings requirements across the four year period to implement savings in a more planned way, and the planned reduction in reserves down to a prudent minimum level to support this process;

   e) the level of income from fees and charges generated and the increasing targets in the corporate plan to build on income generation to help to address the financial challenges faced;

   f) the housing revenue account 30 year business plan and the challenges faced within that plan following recent changes in legislation with particular reference to the impact of the 1% reduction in social rents for 4 years and the anticipated determination to be funded by the sale of higher value properties as they become empty;

   g) the planned use of capital receipts. Around £1.6m of capital receipts are anticipated in 2016/17, however, these are already fully committed to the capital programme. With a desire to retain income generating assets within the portfolio to maximise income levels, there is little scope for application of capital receipts to the cost of reform and so no projects are planned to be funded in this way for 2016/17; and

   h) the council's approach to working with partners and the community.

Recommendation

10. Council is asked to:

    a) Approve cabinet's recommendation that the council pursues the offer of a four year funding settlement by publishing an efficiency plan by 14 October 2016 and sending a link thereto to the Department for Communities and Local Government; and

b) Approve the draft four year financial sustainability plan as recommended by cabinet to meet the requirements of both the four year efficiency plan and flexible use of capital receipts strategy.

Integrated impact assessment

NORWICH City Council

Report author to complete	
Committee:	Council
Committee date:	
Head of service:	Chief Finance Officer
Report subject:	Four year financial sustainability plan
Date assessed:	30/08/16
Description:	This is the integrated impact assessment for the draft four year financial sustainability plan report to council

	Impact			
Economic (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)	☐	☒	☐	The recommendations of the report will secure continuing value for money in the provision of services to council tax payers and other residents of the city
Other departments and services e.g. office facilities, customer contact	☒	☐	☐	
ICT services	☒	☐	☐	
Economic development	☒	☐	☐	
Financial inclusion	☒	☐	☐	
Social (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	☒	☐	☐	
S17 crime and disorder act 1998	☒	☐	☐	
Human Rights Act 1998	☒	☐	☐	
Health and well being	☒	☐	☐	

	Impact			
Equality and diversity (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Relations between groups (cohesion)	☒	☐	☐	
Eliminating discrimination & harassment	☒	☐	☐	
Advancing equality of opportunity	☒	☐	☐	
Environmental (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Transportation	☒	☐	☐	
Natural and built environment	☒	☐	☐	
Waste minimisation & resource use	☒	☐	☐	
Pollution	☒	☐	☐	
Sustainable procurement	☒	☐	☐	
Energy and climate change	☒	☐	☐	
(Please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Risk management	☐	☒	☐	Provision has been made for risk within the prudent minimum level of general fund reserves

Recommendations from impact assessment
Positive
None
Negative
None
Neutral
None
Issues
The council will need to continually monitor its anticipated future funding levels and its success in achieving cost reductions and income generation targets to ensure it can deliver to a balanced budget each year.

Annex 1

Norwich City Council: Four year financial sustainability plan 2017/18 to 2020/21

Background

Norwich is an innovative, creative city with big ambition for both the place and the people who live here. The fastest growing economy in the east of England, it is home to the headquarters of 50 major companies, is in the top shopping destinations in the country and is the regional cultural capital. Norwich has been a success story for almost 1,000 years. It is a modern city with a historic heart. It is vibrant and growing fast. Its economic, social, cultural and environmental influence is out of proportion to its size, and extends far beyond its boundary. Norwich's importance to the people of Norfolk and the wider region is clear.

Yet in sharp contrast to this outward economic prosperity, Norwich has a low-wage economy and high levels of deprivation. While the city has many positive aspects, it also has many of the severe issues that urban city centres can experience, poor educational attainment, poor health, and above average crime and antisocial behaviour, although this is reducing. The city council is responsible for approximately 60% of the urban area of the city, including the historic city centre, covering a population of approximately 137,400 people. Key data for the city is summarised in the State of Norwich report available here [Link to be inserted].

The council faces severe financial difficulties over the next four years as reflected in its medium term financial strategy. This results from government reductions in the council's revenue support grant and increasing cost pressures. The council's housing revenue account is equally challenged as a result of the effects of the enforced 1% annual rent reduction for four years considerably reducing the rental income available to spend on housing repairs and improvements in the future. In addition, there are a range of uncertainties which are likely to affect the council's budgets in the years to come. The results of the government's consultation on new homes bonus, the determination on how the government proposes that councils with retained housing stock will cover the cost of 'Right to Buy' of registered housing providers and the impact of business rates appeals and the retention of business rates generally.

The council's efficiency journey in recent years

Norwich city council has been on a journey of continuous improvement in recent years delivering significant efficiency savings and winning numerous awards along the way. Measures have included lean systems reviews, smart procurement and reconfiguring services in addition to investing in new website design to make on line services easier to access and pursuing initiatives to increase income to the council such as building a new car park. Through these measures the council has delivered approximately £27m of recurring revenue savings over the last 6 years. It won the gold award for 'Council of the Year' in the Improvement and Efficiency Awards 2014 and the 'Most Improved Council Award' in the Local Government Chronicle (LGC)

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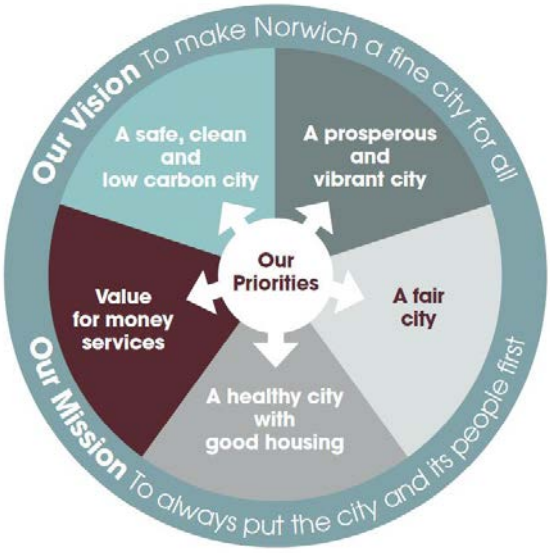
awards 2014. It was also a finalist in the Municipal Journal's 'Best Achieving Council' award 2015 and in the LGC 'Council of the Year' award 2016.

However, the Council has reached the point where the potential for reconfiguration of services is increasingly limited and a redesign of the council is necessary. With the resources available to the council in future, it will not be able to meet the aspirations of the corporate plan and new priorities need to be set that can be delivered within the reduced resources available.

The Council's vision, priorities and core values

The council's current corporate plan sets out the council's vision and mission and its priorities. It also sets out the actions to be taken to meet those priorities alongside how success in achieving priorities will be measured. The corporate plan is available here [Link to be inserted] and the vision, mission and priorities are summarised below.



On 23rd Feb 2016 the leader of the council announced that a review of the corporate plan would be undertaken to consider the need to reflect any changes in national financing arrangements to both general and housing revenue funds. This was followed by agreement from cabinet on 8th June 2016 to the initiation of a process to:

a) Work with partners in the public, private, voluntary and community sectors to develop a new city vision
b) Develop a revised corporate plan, priorities and performance measures which reflects the council's part in supporting that vision
c) Determine a new blue print or operating model to guide how the council works in future which reflects available resources

This work is currently underway.

The medium term financial strategy and transformation programme

The council's medium term financial strategy (MTFS) reflects the latest projections of anticipated income and spend and sets savings targets to be achieved by the council

for the next 5 years. The MTFS is published annually with the budget papers and the latest published MTFS up to 2021/22 was approved by council on 23rd Feb 2016 and is available here [Link to be inserted]. The MTFS sets a net savings requirement for the council of £2.3m pa for the next 4 years reducing to £1.1m in 2021/22.

The council's transformation programme considers the required net savings to deliver a balanced budget for the council and brings together increasing cost pressures, increases in income generation and planned savings to produce a set of proposals to meet the budget challenge. The transformation programme for 2016/17 was approved by Council on 23rd Feb 2016 as part of the budget papers. The transformation programme for 2017/18 to 2021/22 is summarised at appendix 1.

Significant uncertainty remains around a number of funding streams. In particular, we are still awaiting outcomes following the consultation on the future of the New Homes Bonus grant. And the move to the retention of 100% of business rates by local government by 2020 will bring changes to that stream of funding. Currently the council collects nearly £80m in business rates each year but only keeps around £5m of this for its own use, and whilst growth in business rates has been seen this has been eroded by appeals, moves to the central list and from properties changing use that have meant the council has not achieved its baseline funding levels from business rates in either 2015/16 or 2014/15. The transformation programme is therefore, by necessity, a flexible programme which needs to adjust to funding challenges as they arise.

The key themes from the transformation programme are set out below:

- Maximising income generation where possible whist taking into account the ability to pay
- Maximising returns from assets, particularly the council's commercial portfolio and investing for further return
- Review of the customer contact model and service standards including moving to more digital engagement following the recent launch of the council's new website
- Review of neighbourhoods and enforcement functions including achieving efficiencies through more streamlined enforcement functions and encouraging active participation in neighbourhoods by residents
- Working with partners to maximise income and reduce costs including through shared services
- Organisational review and work styles, which has commenced with the recent review of the senior management structure
- Review of support services and overheads to minimise support costs and protect front line services wherever possible; and
- Reductions in service levels and / or stopping of services including a review of the balance between spend on statutory and discretionary services, and the priorities in the corporate plan.

Use of reserves

The council had general reserves of £12.1m at the 1st April 2016. The council has adopted a policy of using reserves to smooth the savings required across a number

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of years to enable a more planned approach to the delivery of savings through the transformation programme. In line with this policy, the MTFS assumes that reserves will reduce significantly over the next 5 years to just over £5m. The council sets a prudent minimum level of reserves as part of budget setting each year which is designed to be sufficient to meet unforeseen circumstances that may arise. This prudent minimum level of reserves currently stands at £4.3m. The MTFS forecast reduction in reserves and the anticipated level of reserves compared to the prudent minimum level are shown in Appendix 2.

Government funding and the four year offer

On 10th March 2016 the secretary of state for communities and local government wrote to all council leaders offering a four year settlement subject to publication of an efficiency plan. The funding streams included within this settlement offer are revenue support grant (RSG), rural services delivery grant and transitional grant. The council does not receive either of the latter two grants but revenue support grant amounts as per the indicative 4 year allocations are set out below:

Year	2016-17	2017-18	2018-19	2019-20
Indicative RSG funding	£2,567k	£1,671k	£982k	£213k

No revenue support grant is expected beyond 2019-20.

These reductions in government funding will be very challenging to address given the level of savings already delivered in recent years, but the council welcomes the certainty of funding offered which will enable the transformation programme to progress in a more planned way over the next 4 years without having to respond to annual changes in government formula funding.

Achieving financial self sufficiency

Wherever possible the council is seeking to generate new streams of income to avoid cuts to services. Recent examples of this include a new car park which has just opened in the city, and the setup of a housing development company to provide high quality homes within the city whilst at the same time providing an income stream for the council. The council is also looking at a range of other income options and its current income streams to ensure income generation opportunities are maximised.

The council's corporate plan sets the following targets for income from fees and charges as a % of spend:

2015-16 43.2%
2016-17 44.2%
2017-18 45.2%

For 2015-16 the council exceeded its target with income from fees and charges representing 47.6% of spend. These income targets exclude income from council tax

and business rates and funding from grants. Total projected income, excluding funding from grants, is forecast to total £41.1m by 2020 as set out below.

Source of funding (2020)	**Anticipated funding level £k**
Business rates	5,610
Council tax	8,765
Fees and charges	26,791
Total	**41,166**

The housing revenue account (HRA)

Whilst the MTFS covers the general fund budget, the HRA has a separate business plan which covers both its revenue and capital spend over a 30 year period. The latest business plan was approved by council on 23rd February 2016 and is available here [Link to be inserted]. Following the 1% annual rent reduction for social rents for four years from 2016 set out in the Welfare Reform and Work Act 2016, and the anticipated determination required to be paid in future introduced in the Housing and Planning Act 2016 to fund right to buy sales by registered providers, the HRA is like the general fund under significant financial pressure. Some £7m per year has been removed from the HRA business plan already as a result of the 1% rent reduction, mainly through reduced costs of maintenance. Further efficiencies in spend are being sought in HRA services to prepare for the payment of the determination. The transformation programme themes therefore covers both general fund and HRA funded services.

Use of capital receipts

In the spending review 2015 the chancellor of the exchequer announced that 'to support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to spend up to 100% of their fixed asset receipts (excluding Right to Buy Receipts) on the revenue costs of reform projects.

The Council has a range of assets which it holds of which the most significant are its housing stock and investment properties. The housing stock sits within the housing revenue account (HRA) which is a ring fenced account and capital receipts from this could only be used for efficiency projects within Housing. The stock of investment properties require ongoing maintenance and investment to maintain income streams and these costs are already funded from capital receipts. Spend on essential works to other assets is also funded from capital receipts and with a desire to keep assets within the portfolio which have good revenue returns the availability of further capital receipts to fund the revenue costs of reform is limited. For 2016-17 the council is anticipating £1.6m in funding from capital receipts but these are fully committed to the capital programme. The council is not therefore planning to fund any costs of reform from capital receipts.

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Working with partners

The council recognises that to achieve the best for Norwich with decreasing resources it needs to work collaboratively with public, private and voluntary sector organisations. In particular, the Council has partnered with its neighbours Broadland District Council, South Norfolk Council and Norfolk County Council to form the Greater Norwich Growth Board producing a Joint Core Strategy for the Greater Norwich area. It has set up Joint Ventures with the Norse group for the provision of property and environmental services, managing its commercial portfolio and maintaining and enhancing its housing stock. It has partnered with LGSS via Cambridgeshire and Northamptonshire County Councils for the provision of services including finance and IT. And it has partnered with other local councils across Norfolk and East Anglia on services such as legal services, building control, etc, and works with the county council, local health and police services.

Of course, it is not just the city council that is facing diminishing resources, the County council, probation service, police, clinical commissioning groups and NHS trusts are all under pressure. The same is also true for voluntary and community organisations, with whom we collaborate and from whom we commission services. It is unclear how these varying pressures will impact collectively on the people of Norwich. The approach we have taken across voluntary and statutory partners is to identify areas of common concern and where we can have a positive impact upon shared priorities, whilst recognising each organisation has its own sets of priorities.

The council's operating model, focussing particularly on the delivery of front line services, needs to continue to evolve with greater transformational change. Using and integrating the principles of the council's neighbourhood working model – reducing duplication, greater collaboration with partners, developing the role of residents, demand management and behaviour change – a number of approaches are being developed, often testing and piloting these to understand their effectiveness that will contribute to the council's financial sustainability. The following are some examples of where the council work in partnership to deliver services.

Early help

Working with Norfolk Childrens Services, Norfolk Constabulary and Norwich CCG to deliver an Early Help Hub that provides partners with a space to collaborate, consult with one another, problem solve and share information to make sure families and residents in need of help, receive the most appropriate and effective support as soon as possible. The objective is to provide help where it is required early to reduce delay and duplication and reduce the need for higher cost interventions.

Where early help fails to make a difference, issues will be escalated swiftly to the correct service or specialist team who can provide an intervention. This might include the joint council and police operational partnership team that focusses on risk based ASB interventions or the council's Families Unit that supports families with multiple and complex needs enabling them to maintain their tenancies, manage their homes and their children effectively within their communities and move towards social inclusion.

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Collaboration with the voluntary sector

With Norwich facing significant deprivation issues, the corporate priority of *a fair city*, sets out to reduce the social, financial and economic inequality that occurs in some communities.

The provision of free to access advice services is an important part of the council's response to these often deep and entrenched needs. Using a needs assessment to scope the service requirements, and using the council's commissioning framework that sets out to secure value for money through better relationships with public, private and voluntary organisations, a consortium of voluntary organisations comprising Norfolk Community Law Service, Age UK Norwich, Shelter, Mancroft Advice Project (MAP), and Equal Lives, are delivering a variety of debt management, financial capability and income maximisation services specified.

Using this approach allows providers to develop the interventions based on their own expertise and knowledge of clients rather than the council prescribing activity and risk losing the innovation available in the sector as well as helping to deliver a flexible, effective and sustainable advice sector in the city.

This collaboration is being developed further with an area based approach being tested in one part of the city to reduce the issues of inequality. This project is taking a preventative approach to improving the health and wellbeing of residents in Lakenham, with a focus on those on low incomes and/or suffering the poorest health.

The programme is delivering coordinated action by the council, partners including the GP surgery, Childrens Centre, CAB, schools, Norse commercial services and the community with the aim of trialling new ways of working to join up local services and engage and build resilience within the local community

Community enabling and active communities

Norwich has a long history of community led activity and there are opportunities for the council to support and enable local residents to be more self-sufficient. This will allow the council to focus its reducing resources on those more vulnerable residents who really need help.

Working through an asset based approach and in partnership with existing voluntary and community sector organisations, the council will encourage greater self-service amongst citizens and residents to be more involved in the life of their neighbourhood dealing with local challenges by the community themselves.

If successful and residents are more active with increased skills, confidence and aspiration, there is the potential to develop the social value of the council's procurement by stimulating social and community enterprises to deliver certain council contracts that provide local employment and value for money service delivery.

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Appendix 1: Transformation programme indicative income increases, savings and cost pressures 2017/18 to 2020/21

	2017/18	2018/19	2019/20	2020/21
Income generation	£961k	£848k	£471k	£577k
Maximising returns from assets	£75k	£192k	£369k	£150k
Customer contact model and service standards	£315k	£315k	£315k	£315k
Neighbourhoods and enforcement	£200k	£440k	£226k	£200k
Working with partners and shared services	£670k	£205k	£205k	£532k
Organisational review and work styles	£98k	£48k	£85k	£50k
Review of support services and overheads	£343k	£132k	£107k	£193k
Reductions in service levels and / or stopping of services including a review of the balance between spend on statutory and discretionary services, and the priorities in the corporate plan	£297k	£885k	£1,287k	£1,048k
Less: Cost pressures	£(644)k	£(750)k	£(750)k	£(750)k
TOTAL	£2,315k	£2,315k	£2,315k	£2,315k

We will use our best endeavours to focus on income generation, efficiencies through remodelling of services, and reducing cost pressures wherever possible, but inevitably will have to consider reductions in services levels and stopping of services to meet the level of savings required. Detailed savings proposals will continue to be presented to the Council for agreement on an annual basis.

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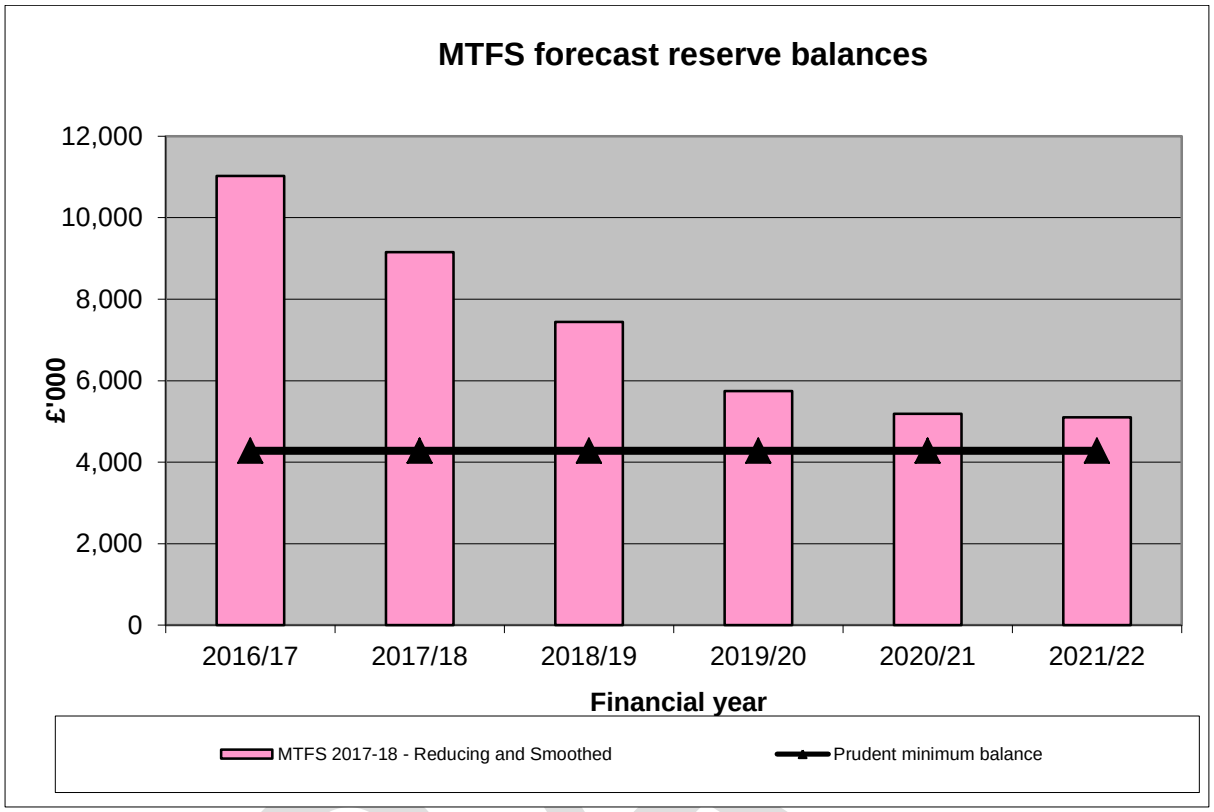
Appendix 2: MTFS forecast general reserve balances 2016/17 to 2020/21



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