



## Four Year Efficiency Plan 2016/17 to 2019/20

### 1 Introduction

- 1.1 As part of the November 2015 Spending Review, the Government offered Councils an opportunity to achieve greater certainty and confidence over their finances by accepting a four year finance settlement. With the aim being that this certainty will allow local authorities to strengthen their financial management and make more strategic, long-term decisions on reforming public services in the context of further reductions in funding.
- 1.2 The Government's commitment is to provide minimum allocations for each year of the spending review period, should councils choose to accept the offer and publish an efficiency plan as part of the acceptance. The only caveat being that agreed funding could be amended if there are significant, unforeseen events.
- 1.3 The four year settlement is optional but future levels of funding are not guaranteed if it is not accepted. This would mean reverting to single-year settlements and all the uncertainty they bring. These future allocations could be subject to additional reductions dependant on the economic climate and the need to make further savings to reduce the deficit.

### 2 Medium Term Financial Strategy (MTFS)

- 2.1 The budget pressure which needs to be addressed through the MTFS is determined both by annual changes in funding received and the additional cost pressures which the council faces. The key financials from the MTFS can be found in the table below with further detail around funding and cost pressures available in the MTFS document that will be published on the council's website and discussed at the Borough Council meeting on the 18<sup>th</sup> October 2016.
- 2.2 The MTFS has been modelled to allow the Council to achieve the key priorities listed in the corporate plan, which is discussed in the next section.
- 2.3 **Table 1: MTFS 2016/17 to 2019/20**

All amounts in £m	2016/17 Approved	2017/18	2018/19	2019/20
<b>Section one - departmental cost</b>				
Children's, Housing and Adults' Services	395.2	393.1	380.0	376.9
Regeneration, Economic Development and Environment	97.6	94.0	89.2	87.6
Chief Executive's	194.6	192.8	186.5	185.5
<b>Gross departmental cost</b>	<b>687.4</b>	<b>679.9</b>	<b>655.7</b>	<b>650.0</b>
Specific government grants	(441.6)	(441.6)	(441.6)	(441.6)
Other service income	(65.6)	(65.6)	(65.6)	(65.6)
<b>Net departmental cost</b>	<b>180.2</b>	<b>172.7</b>	<b>148.5</b>	<b>142.8</b>

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All amounts in £m	2016/17 Approved	2017/18	2018/19	2019/20
<b>Section two - net operating expenditure</b>				
Treasury Management and capital costs	7.2	10.2	15.0	15.7
Corporate items	(17.6)	(3.9)	3.0	4.8
Budget pressure	0.0	(14.8)	(12.0)	(13.9)
<b>Net operating expenditure</b>	<b>169.8</b>	<b>164.2</b>	<b>154.5</b>	<b>149.4</b>
<b>Section three - funding the net operating expenditure</b>				
Council tax	86.6	88.8	89.4	89.9
Business rates	50.0	50.5	51.0	51.5
Revenue support grant	31.1	21.8	15.7	9.5
Drawings from, then contributions to general reserves <sup>#</sup>	2.1	3.1	(1.6)	(2.0)
<b>Total funding</b>	<b>169.8</b>	<b>164.2</b>	<b>154.5</b>	<b>149.4</b>

\*the education services grant will be rolled into the dedicated schools grant from 2017/18 onwards

<sup>#</sup>drawings from reserves are positive, contributions to reserves are negative

### 3 Corporate Plan

3.1 Despite the challenging financial environment, the Council remains committed to improving service quality particularly in those areas that are most valued by local residents. This is reflected in the corporate plan which comprises of seven key priorities:

1. Keeping you safe
2. Brighter futures for our children
3. Good quality homes and jobs
4. A cleaner, greener borough
5. Active, healthy communities
6. Help and support when you need it
7. An ambitions council delivering quality services and value for money

3.2 The full corporate plan is available here: [http://www.hounslow.gov.uk/corporate\\_plan](http://www.hounslow.gov.uk/corporate_plan)

### 4 Transformation and Key Partnerships

4.1 Transforming the way that services are provided and the involvement in key partnerships will be vital in addressing the budget pressures that the council faces and are discussed below.

#### 4.2 Sustainability and Transformation Plan (STP)

4.3 NHS England has initiated the STP to deliver a more integrated supportive health and social care economy across the UK. This programme of change is expected to deliver regional sustainability to the health and social care economy and ensure regional health and social care partners work together to deliver improved joined up health and social care for all stakeholders. This programme of work will be joined up with all aspects of the council inclusive of assets/planning, housing, social care and commissioning.

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- 4.4 LBH is part of the wider North West London (NWL) strategic group, including the London boroughs and CCG's of Hillingdon, Ealing, Hounslow, Hammersmith & Fulham, Kensington & Chelsea, Westminster, Brent and Harrow and has submitted an initial strategic proposal in June 2016 to deliver a joined up 4 year strategy with health and Local Authority partners.
- 4.5 The initial submission highlighted an adult social care funding gap in the NWL region of in excess of £145m over the next 4 years. This initial proposal to NHS England highlighted a need for £110m of revenue investment required to deliver the overall strategy and to assist in closing this funding gap. The initial proposal to NHS England can be found here: <https://www.healthiernorthwestlondon.nhs.uk/news/2016/08/05/north-west-london-sustainability-transformation-plan>
- 4.6 The initial STP was assessed by NHS England over the summer and an additional submission is required for the 22<sup>nd</sup> October, with a more detailed outline of ASC budget pressures across the region and a detailed understanding of what any future investment would be providing and how this would reduce the financial pressures in the health and social care economy.
- 4.7 The STP will be vital in helping the Council to achieve a number of key priorities in the corporate plan, mainly priorities 5, 6 and 7. The STP will help in promoting active, healthy communities, providing help and support to residents when needed.
- 4.8 Lampton 360**
- 4.9 Lampton 360 is a trading company owned solely by the London Borough of Hounslow. The council is committed to putting significant resource into business development to provide the council with future income streams, increasing the ability of the council to generate an alternative source of income. The company is also being used as a 'vehicle for change' to move the council towards a more commercial focus, leading to efficiencies.
- 4.10 Over the last twelve months the council has taken the first steps to realising its ambitions for the trading company having agreed business plans for 3 subsidiaries.
- 4.11 Recycle 360 will begin providing waste collection services to London Borough of Hounslow from 31<sup>st</sup> October.
- 4.12 Facilities Management 360 will be formed and will take over delivery of the planned maintenance programme on the HRA stock in early 2017.
- 4.13 Property 360 is likely to result in the formation of a company to acquire and rent residential properties both in Hounslow and the surrounding areas. There are also plans to set up a Limited Liability Partnership which through a joint venture will develop housing on sites currently owned by the council.
- 4.14 Both Recycle 360 and Facilities Management 360 will operate within existing budgets already used for the services concerned. Property 360 will require significant levels of investment likely to take the form of loans from the council and external partners, a strict set of criteria is being established to ensure a return on investment is delivered.
- 4.15 As the trading arm of the Council begins to take shape, a suitable set of financial systems are being put in place with controls mirroring those used within the Council. Lampton 360 Ltd and the new subsidiaries will use Agresso (the Council's financial system) and follow the standard council procedures for ordering goods and services and making payments for them. The companies have employed a group accountant to provide day to day support to the business

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with most transactional services management oversight being provided by the Council. Monthly financial monitoring will be completed for each company and shared with the senior managers of each business and the Group Managing Director, a performance report including an overview of the finances will be presented to Cabinet on a quarterly reporting cycle.

4.16 Lampton 360 will play an integral part in helping the Council to achieve a number of key priorities in the corporate plan, mainly priorities 3, 4 and 7. Lampton 360 and its subsidiaries will help in providing good quality homes for residents and make sure that the borough is a place where people feel proud to live and work by keeping the borough clean and green.

### 5 Risks

5.1 The Medium Term Financial Strategy and this Efficiency Plan are modelled on the best information available to the Council, and some element of uncertainty is inevitable particularly in the later years. The key areas of uncertainty that the Council is sensitive to include:

- Additional cuts to central government grants in the future e.g. Dedicated Schools Grant, Public Health Grant;
- Changes in government policy e.g. HRA policy, roll out of Universal Credit, implementation of 100% Business Rates Retention;
- Changing demographic and demand patterns particularly in relation to adult services, school places and welfare reform;
- Inflation levels and the council's ability to continue to constrain costs;
- Property market behaviours in relation to the sale and purchase of Council assets;
- The impact of money market trends and base rate movements on the Council's Treasury Management function and Pension Fund valuation;
- Economic uncertainty, especially given the vote to leave in the recent EU referendum.

### 6 Reserves

6.1 The Council's level of reserves are under significant strain in order to support funding for major investment projects. Whilst reserve levels continue to be adequate, the proportion of uncommitted reserves has fallen materially. The main reason why total reserves currently are holding at values comparable with previous years is due to the time lag between commitment, approval, and actual spend.

6.2 Reserves earmarked for particular service areas or expenditure have increased while the balance earmarked to provide contingency balances have decreased, with overall no change in the bottom line. This increase in the proportion of earmarked ring-fenced reserves reduces the flexibility of our reserves.

6.3 The only generally available reserve is the general fund reserve itself (within earmarked reserves), which at the end of 2015/16 had a balance of £12.3m. This amount has reduced from a high of £16.4m as a result of a significant net overspend in 2015/16. The MTFS reiterates the objective of maintaining a £10m balance in the general fund and has an

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assumed drawing for 2016/17 as part of the strategy to balancing the budget. A further drawing is likely to balance off year end overspends.

6.4 With the delivery of many projects underway, large drawdowns are due from these reserves in the short to medium term. The increasing pressures on budgets and reductions in many grants is applying significant pressure to the existing reserves and there is expected to be little opportunity to contribute to reserves over the next 4 year cycle.

6.5 The following table summarises the projected reserves position over the next 4 year cycle up to 2019/20.

6.6 **Table 2: Reserves position 2016/17 to 2019/20**

Type	2016/17	2017/18	2018/19	2019/20
Contingency	6.0	6.0	6.0	6.0
Improvement	6.0	2.0	2.0	2.0
Earmarked	40.0	35.0	35.0	35.0
Capital	7.0	3.0	1.0	0.0
Ring-fenced	21.0	21.0	21.0	1.0
<b>Total</b>	<b>80.0</b>	<b>67.0</b>	<b>65.0</b>	<b>44.0</b>

6.7 The ring-fenced reserves include schools balances and the parking reserve. It is assumed that schools will transfer either in entirety or in large clusters to newly formed academies and academy chains (MAT's – Multi academy trusts) and the above figures assume that this applies to all schools for 2019/20.

6.8 Earmarked reserves consist of a wide range of reserves that includes New Homes Bonus (£9.9m) and other grants received from Government not spent in year of receipt (£8.5m). It also includes a public health reserve (£5.0m), the insurance reserve (£4.7m) and a PFI reserve (£10.8m). Some of these reserves are ring-fenced by rules governing the receipt of the income and many are set aside for specific Member priorities, have been carried over as they are received late in the year, or are held to help smooth out costs (such as the PFI reserve).

6.9 Earmarked reserves are not anticipated to remain at 2019/20 levels as decisions about what the funding would be spent on were generally made at the time of these funds being added to reserves. As the impact of these decisions is realised these funds will be drawn down.

## 7 Comments from the s151 Officer

7.1 LBH has a proven track record of delivering savings and efficiencies with £71.8m in revenue budget savings being delivered in the years 2011/12 to 2015/16. The council has to deliver an estimated £87.2m of savings over the four years from 2016/17 onwards, of this £46.5m has already been agreed.

7.2 This leaves a balance of £40.7m worth of savings still to be found over the next four years, a programme of reviews and improvements are either currently underway or in development

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and each directorate is currently developing plans to deliver the required savings. Some savings are provisionally identified and are being considered for formal approval however a material shortfall still remains for the next financial year. Whilst we expect to find solutions to balance the budget for the next financial year, it is becoming increasingly challenging to do so.

7.3 The MTFs has been prepared on the basis of the Council accepting the four year finance settlement being offered by the Government. The Council faces significant external and internal risks in the next four years and having more certainty over our mid-term finances will allow us to make more strategic, long-term decisions to overcome these risks.