WIRRAL COUNCIL

CABINET

NOVEMBER 8, 2011

SUBJECT:	**Efficiency Investment Fund EIF**
WARD/S AFFECTED:	***ALL***
REPORT OF:	***DIRECTOR OF FINANCE INTERIM***
RESPONSIBLE PORTFOLIO HOLDER:	***FINANCE*** ***PHIL DAVIES LEADER***
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 To propose a change in the operation of the Efficiency Investment Fund (EIF), which consequently, will lead to budget savings in 2012-13 and future years.

2.0 BACKGROUND AND KEY ISSUES

2.1 The EIF was established by Cabinet on 20 June 2007. The fund purpose was to support the achievement of efficiencies dependent upon the receipt of 'pump priming' investment. This included, where appropriate, the funding of redundancy costs. The EIF was used to part fund the major 2011/12 EVR scheme. The scheme criteria is set out at Annex 1

2.2 Requests to access funds from the EIF were made via reports to Cabinet. On approval, a budget was vired from the EIF (held by Finance) to departmental budgets to effect the change. Departmental budgets were then permanently reduced to reflect the agreed savings proposals.

Problems with the current regime

2.3. Problems – These are set out in full at Annex 2. The headlines are: too vague; no real criteria; long payback period; no prioritisation; first come rather than strategic; creation of bad budgets if saving not realised; used to fund bad budgets (2012-13 budget book pg 31, £2m); raided for budget cuts (2012-13, £2.5m).

Finances

2.4 Table 1 sets out the budget history over a three year period:

Table 1: EIF budget history 2011-12 to 2013-14 £m

	Original	Change	Agreed (13-14 proposed)
2011-12	4.9	0	4.9
2012-13	4.9	-2.5 savings	2.4
2013-14	2.4	+2.0 in target projection	4.4

2.5 The current 2013-14 budget projections include an additional £2 million per annum to increase the EIF.

Improvements

2.6 The proposed improvements seek to respond to the problems. In particular:

- The first proposal is to remove the base budget item, which would a saving of up to £2.2m in 2012-13 and £4.4m in 2013-14. This would remove £6 million of growth from the £103 million gap.
- From the Earmarked reserves, create a fund that would be a rolling resource, with savings paying off the 'borrowing';
- The EIF proposals should be part of the annual budget process, that is agreed by Council in March 2013. In this way, there would be clear prioritisation for limited resources. Equally, departments would have to ensure there is a payback to the fund, ensuring they take responsibility for the proposal
- The criteria would include a short payback period, a maximum of three years and a 10% return. Partners in the investment world could assist the process.
- The elimination of the base budget item will remove the possibility of collateral damage to EIF's, from a saving being required, without a replacement scheme to deliver efficiencies.

3.0 RELEVANT RISKS

3.1 These will be reduced as a consequence of adopting the recommendations.

4.0 OTHER OPTIONS CONSIDERED

4.1 Continuing with the current arrangements; having no EIA, both of which are unattractive

5.0 CONSULTATION

5.1 With Management Team, October 25, 2012

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 None

7.0 RESOURCE IMPLICATIONS: FINANCIAL;

7.1 If the EIF is abolished any costs of future EVR/redundancy will require they are fully charged to departments, or included in the 'central' budget gap calculations, essentially treating the matter as a corporate planning precept .

7.2 There would be the following savings:

2012-13	Fund £2.4m less currently used, £200k (HR) = £2.2m;
2013-14	Base budget £2.4m plus £2m addition to target = £4.4m,

7.3 A 'rolling fund' would be created from any 'spare' Earmarked Reserves.

8.0 LEGAL IMPLICATIONS

8.1 None

9.0 EQUALITIES IMPLICATIONS

9.1 The proposals have no relevance to equality.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 None

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 None

12.0 RECOMMENDATION/S

12.1 That the Cabinet agree

1. to the terms of reference at Appendix 3;
2. the release of the £2.2m unused 2012-13 fund to general reserves;
3. the elimination of the fund from the base budget from 2013-14 (£2.4m base), with a concomitant reduction in the growth target for 2013-14 (£2m) and later years (£4m) totalling £6m over the three years.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 To connect the funding regime to the delivery of savings, and so align it to the idea of efficiencies.

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APPENDICES

Appendix 1: Efficiency Investment Fund Scheme criteria.
Appendix 2: Problems
Appendix 3: Terms of Reference

REFERENCE MATERIAL

Other Councils best practice

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Cabinet	November 8, 2012

Annex 1 - Efficiency Investment Fund Scheme criteria.

The criteria was set out in the DoF's Cabinet report of June 20, 2007. The report did not summarise the criteria, but rather proposed some guiding points to be adopted. They were to help deliver the *Efficiency Plan 2008-2011.* They were:

1. That redundancy payments be scored against the EIF;
2. As a consequence of [1], the budget was to be increased from £1.2m to £3.2m;
3. As a consequence of [2], an increase in the EIF savings target of £2m;
4. Cabinet prior agreement to schemes.

Annex 2 - Problems

There are two major design faults. Firstly, there are no 'terms of reference' that guide the fund. Secondly, the funding regime is not closely connected to the delivery of savings, and runs counter to the idea of efficiencies.

Terms of Reference

- Too vague – in essence there are no terms of reference;
- No criteria – suggested criteria should include:
  - A split between Capital and Revenue;
  - A deminimus figure, say £50k;
  - A rate of return – say 10% - to concentrate investment in schemes that deliver the most.
  - A timetable for the bidding process;
- Long payback period – to be added to the criteria should be a short repayment period, say a maximum of 3 years;
- No prioritisation – a further scheme design is to then prioritise the 'bids' for investment;
- First come rather than strategic – consideration of the all the bids, as part of the budget process will ensure the activity is aligned with the political priorities.

Funding regime

- A base budget item – the key feature of efficiencies is that they should pay for themselves. They do not require an annual base budget investment. Rather there should be a revolving fund, the performance of which is clearly connected to outcomes;
- Creation of bad budgets if saving not realised – because the 'investment banker' principle is not engrained, the clear line of sight between promise and delivery is lost. Where delivery falls short, it presents as a bad budget, rather than an issue to be resolved;
- Used to fund bad budgets (2012-13 budget book pg 31, £2m) – the fund has supported bad budgetary practice, which has nothing to do with efficiency;
- Raided for budget cuts (2012-13, £2.5m) – it is obvious that the delivery of efficiencies are not a central tenant if the fund, which should be of a size that reflects a plan, can be expediently cut to deliver an overall budget..

Annex 3 Terms of Reference - Efficiency Investment Fund

- A split between Capital and Revenue;
- A deminimus figure, of £50k;
- A rate of return, of 10%, to concentrate investment in schemes that deliver the most;
- The fund is a rolling resource, with savings paying off the ‘borrowing’;
- Payback period – to be a maximum of 3 years;
- A timetable for the bidding process that is connected to the annual budgetary cycle;
- Prioritisation – bids are to be prioritised for investment;
- Strategic consideration - the agreement of the Council to the successful bids as part of the budget process will ensure the activity is aligned with the political priorities.