

**14 October 2015**

**ITEM: 11**

**01104416**

**Cabinet**

**Shaping the Council and Budget Update**

<b>Wards and communities affected:</b> All	<b>Key Decision:</b> Key
<b>Report of:</b> Councillor John Kent, Leader of the Council	
<b>Accountable Head of Service:</b> Sean Clark, Head of Corporate Finance and Section 151 Officer; Karen Wheeler, Head of Strategy & Communications	
<b>Accountable Director:</b> Lyn Carpenter, Chief Executive	
<b>This report is</b> Public	

**Executive Summary**

The Council set a balanced budget for 2015/16 having made some difficult decisions about where savings could be made. Pressures remain in the current financial year and will escalate in the following years. The cumulative effect of £83.2m savings over 6 years now visibly impacts on communities. It will also make the Council's ability to make further savings increasingly challenging.

This report sets out the pressures in 2015/16 and the Medium Term Financial Strategy (MTFS) with a need to meet an estimated budget gap of over £28m for the four years between 2016/17 and 2019/20. The latest MTFS includes the impact of the cessation of the Serco contract although this is significantly offset by changes to the Environment Services savings targets.

The cross-party Budget Review Panel endorsed by Cabinet in July 2015 started a series of meetings during August to inform the strategic approach to shaping the Council in this financial context with consideration of the complexity and scale of the challenge that lies ahead.

This report seeks Cabinet approval for the approach to dealing with the budget pressures in 2015/16 and 2016/17.

**1. Recommendation(s):**

- 1.1 **That Cabinet note the current financial position and that a future Shaping the Council and Budget Update report will set out any financial impact of pressures within the Children's and Housing Services budget, as set out in the report; and**

**1.2 That Cabinet note the latest update on the Serco transition.**

**2 Introduction and background**

- 2.1 This report sets out the pressures in 2015/16 and the Medium Term Financial Strategy (MTFS) with a need to meet an estimated budget gap of over £28m for the four years between 2016/17 and 2019/20. The latest MTFS includes the impact of the cessation of the Serco contract and the additional pressures from the Environmental Services budget.
- 2.2 A robust approach to considering the future shape of the Council and budget planning process was agreed by Cabinet in July 2015 including the establishment of a cross-party Budget Review Panel.

**3 Medium Term Financial Strategy (MTFS)**

- 3.1 The MTFS is set out at Appendix 1 of this report, as presented to Cabinet in September 2015. There have been no changes since the last report though officers are now recognising pressures within Children's and Housing Services as set out below. Officers will review the 2015/16 pressures to minimise the impact on future years and include a detailed analysis in the report to Cabinet in the Autumn.

**2015/16**

- 3.2 The following pressures were reported to Cabinet in September 2015 and remain although officers are working to reduce these where possible. There are a number of reserves that can be used to finance current expenditure where appropriate and further mitigation will be possible through the capitalisation of the Minimum Revenue Provision:

	<b>2015/16</b>
	<b>£m</b>
Shortfall in Serco and Terms and Conditions targets	0.219
Shortfall in Shared Services Recharges	0.200
Environmental Services (part year)	0.650
Impact of Sita recycling arrangements (part year)	0.400
Shortfall in the ability to meet Public Health In-year Reduction	0.100
Uncommitted budget in transformation contingency	(0.300)
<b>Totals</b>	<b>1.269</b>

**Note:** this assumes that all but £0.1m of the Public Health Grant reduction of £0.654m will be met from within that budget.

- 3.3 The Council has maintained the General Fund balance (reserves) at £8m and, in addition, is forecast to have an additional £1.4m in a Budget Management Reserve. It is the Budget Management Reserve that has been earmarked to meet the cost pressures although discussions are continuing on whether any expenditure reductions can be met to mitigate this pressure.
- 3.4 The Environmental Services' related pressures have been added into the MTFS for 2016/17 as, unless permanent alternative savings are achieved, they will be a base budget pressure going forward. Officers are working on options to reduce the high cost of recycling and these will be reported in due course.
- 3.5 The last report to Cabinet did comment that services were recognising additional pressures. Since that report, pressures have been identified within Children's and Housing services and are currently being quantified.
- 3.6 The pressures in Children's Services include a reduction in the contribution by the Clinical Commissioning Group (CCG) towards placement costs, an increase in numbers of unaccompanied asylum seekers which are not fully funded by government grant, withdrawal of the adoption support grant and the need to support newly qualified social workers through their post qualifying year with additional support. Thurrock has successfully recruited a good cohort of newly qualified social workers which will reduce the need for agency workers in future years, but presents a temporary pressure while they hold reduced and appropriate caseloads. In response to recent national concern, additional specialist resources for Child Sexual Exploitation prevention have been necessary. This is in the context of £1.7m less in the budget for Children's Services in 2015/16 than 2014/15.
- 3.7 The pressures in Housing are driven by the increase in households presenting to the authority for homelessness assistance and the consequential rise in numbers requiring temporary accommodation. The lack of affordable private rented sector accommodation, an increase in evictions, and recent welfare reforms are key drivers. To effectively prevent homelessness, and thereby mitigate the need to provide interim accommodation, additional staffing is being put in place for improved caseload management. There is an anticipated cost pressure on the re-tendering of the Homeless Hostel and Crisis Intervention contract from next year.

### **Serco**

- 3.8 The termination of the Serco contract is a key facilitator to being able to reshape the Council. The service currently costs in excess of £18m and employs circa 450 permanent and temporary staff. Having control over the financial and staff resources will allow the Council greater flexibility in changing its approach to service delivery.

- 3.9 Members were updated on the background and position in respect of the termination of the Strategic Services Partnership Agreement (SSPA) with Serco within the September 2015 Shaping the Council Cabinet report. At the time, the Council was working with Serco to complete due diligence to prepare for the transfer of services back to the Council on the 1<sup>st</sup> December 2015. The due diligence exercise, which focussed on the staff, systems and processes which deliver services including Customer Service, Revenues and Benefits and Business Administration, has now been concluded and both the Council and Serco have signed off a high level transition plan which outlines the various tasks required on both sides to successfully transfer services to the Council.
- 3.10 Whilst the due diligence process did not identify any issues which preclude the return of the services or explicitly challenge the timing of the transfer it has undoubtedly identified issues which will need to be addressed as the transition process proceeds. Work going forward is broadly contained within three areas; people, contracts and systems.
- 3.11 Consultation has commenced with the c.350 permanent Serco staff who will transfer to the Council through TUPE. It has been agreed that the HR/Payroll functions will return to the Council on the 1<sup>st</sup> November 2015; one month ahead of the planned transfer of the majority of the functions on the 1<sup>st</sup> December 2015. Discussions are well advanced with Adecco to ensure that the existing agency staff remain available to support the services as we seek to minimise disruption on day one.
- 3.12 In total around 75 contracts have been identified which Serco use to support the delivery of services to the Council., covering everything from the provision of agency staff and facilities management through to the licenses and services which support the Council's IT systems. The contracts total around £8m in value. The Council is working with Serco to novate or transfer all of those that it will be required to continue the delivery of the services and terminate those which will no longer be required.
- 3.13 The majority of the transferring services are using systems which are already owned by the Council and operated/serviced on their behalf by Serco. This makes the transfer of the majority of this area relatively straightforward, however an issue has emerged in respect of the transfer of the systems which support the Council's call centre – a critical area of the Council's operations. The current system has reached the end of its working life and is no longer supported by the provider. Prior to the termination of the SSPA the Council and Serco were in discussions to move the Council onto a new, Serco owned virtual system but, with the contract now being terminated, that is no longer appropriate. On this basis the Council is considering its options for implementing a series of short term measures (for c.6 months) to ensure that the call centre is able to function effectively from the 1<sup>st</sup> December 2015 and will then consider the options for a longer term solution alongside a wider review of its approach to customer service.

## **2016/17**

- 3.14 The MTS still shows a projected deficit for the period 2016/17 to 2019/20 of £28.4m of which £3.4m relates to 2016/17. The projected deficit of £3.4m needs to be addressed for 2016/17 and Directors' Board will work with Cabinet Members to bring back proposals to a future meeting.

## **4 Budget Review Panel**

- 4.1 In July 2015, Cabinet endorsed the establishment of a cross-party Budget Review Panel. The purpose of the Panel is to:
- Build and strengthen awareness and ownership of portfolio budgets and issues across Group Leaders, shadow portfolio holders and other opposition leads;
  - Consider and comment on the Council's draft 2020 Vision, the four change programmes, and the on-going bottom up review of Council functions; and
  - To explore options for budget savings in either 2015/16 or 2016/17 to be taken forward through the autumn scrutiny process, ensuring proposals are broadly consistent with the 2020 Vision and direction of travel.
- 4.2 Six Panel meetings have taken place during August and September covering Environment, Central Services, Adult Social Care and Health, Children's Services and Education, Housing and Communities, and Regeneration, Assets, Planning, Growth, Highways and Transportation.
- 4.3 Key cross cutting themes discussed have included:
- Exploring alternative delivery models and income generation opportunities;
  - Supporting growth and inward investment enables jobs, skills and improved wellbeing reducing impact on other Council services;
  - Maximising opportunities for joint commissioning and managing the market for services;
  - Addressing the impact of national shortages in key professions e.g. social workers, planners etc. on the recruitment and retention of staff and reliance on agency support;
  - Developing further our changing relationship with the voluntary and community sector;
  - Benefits of early intervention and prevention on helping to manage the growing demand for adult, health and children's services;
  - Recognising the impact on our reputation of poor public realm e.g. litter, fly tipping etc. and ability to attract inward investment; and
  - The importance of communications to help educate residents and encourage behaviour change where it can improve the customer experience and reduce costs to the Council e.g. accessing services online.

- 4.4 The Panel is not decision making and officers will now consider all the information from the Panel sessions and build them into development of the budget planning process. Further details will then be brought forward as part of a quarterly update focused on addressing the budget challenge for 2016/17 and beyond. Officers will now cost out what potential efficiencies may be delivered and risks to service delivery if applicable.

## **5 Issues, Options and Analysis of Options**

- 5.1 The issues and options are set out in the body of this report in the context of the latest MTFS and informed by discussions with the Leader of the Council, Group Leaders and Directors Board.

## **6 Reasons for Recommendation**

- 6.1 The Council has a statutory requirement to set a balanced budget annually. This report sets out a proposed approach to dealing with budget pressures in 2015/16 and for 2016/17 and beyond in the context of needing to achieve over £28m of budget reductions over four years.

## **7 Consultation (including Overview and Scrutiny, if applicable)**

- 7.1 Corporate Overview and Scrutiny Committee considered the summary information from each of the Budget Review Panels and will continue to have a role in overseeing the process.
- 7.2 This report has been developed in consultation with the Leader, Portfolio Holders and Group Leaders and Directors Board.

## **8 Impact on corporate policies, priorities, performance and community impact**

- 8.1 The implementation of savings proposals has already reduced service delivery levels and our ability to meet statutory requirements, impacting on the community and staff. Delivering further savings in addition to those previously agreed is particularly challenging in light of the cumulative impact of such a significant reduction in budget and in the context of a growing population and service demand pressures within children's and adult social care and housing, and legislative changes. As such, a new approach aims to establish sustainable and innovative ways of delivering services in the future to mitigate this impact.
- 8.2 There is a risk that some agreed savings may result in increased demand for more costly interventions if needs escalate particularly in social care. This will need to be closely monitored. The potential impact on the Council's ability to safeguard children and adults will be kept carefully under review and mitigating actions taken where required.

## **9 Implications**

### **9.1 Financial**

Implications verified by: **Sean Clark**  
**Head of Corporate Finance/S151 Officer**

The financial implications are set out in the body of this report and in the attached MTFS.

Council officers have a legal responsibility to ensure that the Council can contain spend within its available resources. Regular budget monitoring reports will continue to come to Cabinet and be considered by the Directors Board and management teams in order to maintain effective controls on expenditure during this period of enhanced risk. Austerity measures in place are continually reinforced across the Council in order to reduce ancillary spend and to ensure that everyone is aware of the importance and value of every pound of the taxpayers money that is spent by the Council.

### **9.2 Legal**

Implications verified by: **David Lawson**  
**Deputy Head of Legal & Governance - Deputy Monitoring Officer**

There are no direct legal implications arising from this report.

There are statutory requirements of the Council's Section 151 Officer in relation to setting a balanced budget. The Local Government Finance Act 1988 (Section 114) prescribes that the responsible financial officer "must make a report if he considers that a decision has been made or is about to be made involving expenditure which is unlawful or which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency to the authority". This includes an unbalanced budget.

### **9.3 Diversity and Equality**

Implications verified by: **Natalie Warren**  
**Community Development and Equalities Manager**

There are no specific diversity and equalities implications as part of this report. A comprehensive Community and Equality Impact Assessment (CEIA) will be completed for any specific savings proposals developed from the Panel's discussions and informed by consultation outcomes to feed into final decision making. The cumulative impact will also be closely monitored and reported to Members.

**9.4 Other implications (where significant – i.e. Staff, Health, Sustainability, Crime and Disorder)**

Any other significant implications will be identified in any individual savings proposal business case to inform the consultation process where applicable and final decision making.

**10 Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Budget working papers held in Corporate Finance
- Budget Review Panel papers held in Strategy and Communications

**11 Appendices to the report**

- Appendix 1 – Medium Term Financial Strategy

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