

24 July 2014

ITEM: 6

Corporate Overview and Scrutiny Committee

Budget Update and Savings Proposals

Wards and communities affected:

All

Key Decision:

No

Report of: Cllr Victoria Holloway, Portfolio Holder for Central Services; Cllr Richard Speight, Portfolio Holder for Communities; Cllr John Kent; Leader and Portfolio Holder for finance and strategy

Accountable Head of Service: Karen Wheeler, Head of Strategy and Communications; Sean Clark, Head of Corporate Finance; Fiona Taylor, Head of Legal and Democratic Services; Jackie Hinchliffe, Head of HROD & Customer Strategy; Kathryn Adedeji, Head of Commercial Services

Accountable Director: Graham Farrant, Chief Executive; Steve Cox, Assistant Chief Executive; Barbara Brownlee, Director of Housing

This report is public

Executive Summary

As a result of significant reductions in the money received from the Government and other pressures on services the Council will have to make £37.7m of savings over the three years between 2015/16-2017/18.

Cabinet received two reports in July 2014 (2013/14 Draft Outturn and MTFs Update; Shaping the Council 2015/16 and Beyond), setting out unprecedented reductions in funding requiring a change in the way the Council approaches addressing the budget gap and in considering the future shape of the organisation going forward.

This report sets out the overall context and principles upon which the MTFs is based and therefore the backdrop to developing savings proposals to address the budget gap.

A number of savings proposals were agreed by Cabinet for further development and public consultation. This committee is asked to consider the savings proposals for central services and comment on them as part of the consultation process and to inform further development and decision making.

1. Recommendation(s)

1.1 That Members consider and comment on the savings proposals within central services listed in Appendix 1 and detailed in Appendix 2

2. Introduction and Background

- 2.1 As a result of significant reductions in the money received from the Government and other pressures on services the Council will have to make a further £37.7m of savings over the three years between 2015/16-2017/18. This is on top of the significant savings already made.
- 2.2 The Council has faced unprecedented financial pressures over the last four years. Over this period, the Council has exercised sound financial management within all services with the following headlines previously reported:
- Savings of £50m have been identified over the last four years;
 - The audit of the financial statements has confirmed that the Council, despite further in-year pressures, has contained expenditure within budget for the three financial years 2010/11 through to 2012/13;
 - The General Fund balance has been increased from £2.1 as at 31 March 2010 and maintained at £8.0m;
 - The Council has, for the last two audited years, received an unqualified Value for Money opinion;
 - The draft outturn for 2013/14, as reported to Cabinet in July, shows for the fourth consecutive year the Council has contained the financial pressures and delivered within the budget constraints.
- 2.3 The Leadership Group has been working over recent months to refresh the Medium Term Financial Strategy (MTFS) through reviewing the 2013/14 outturn and reflecting the latest information and forecasts within services. These have:
- Highlighted some 2014/15 pressures – Cabinet have endorsed the management actions being taken including for 2015/16 and beyond;
 - Identified the need to change the approach for budgeting and accounting for transformation and procurement savings; and
 - Led to a revised MTFS budget deficit for the period 2014/15 through to 2017/18 of £37.7m.
- 2.4 Specific pressures for 2015/16 and beyond, in addition to the overall reduction in Government grant, are set out in the body of this report. In addition Thurrock has and will continue to experience significant demographic changes. The Census 2011 showed that the population increased to 157,705, up 14,000 (10%) since 2001, and is projected to rise from 159,500 in 2012 to 176,500 in 2022. This is a 10.6% increase and is significantly higher than forecast for England (7.2%) and the Eastern region (8.6%).
- 2.5 This report sets out the overall context and principles upon which the MTFS is based and therefore the backdrop to developing savings proposals to address the budget gap.
- 2.6 A number of savings proposals were agreed by Cabinet for further development and public consultation. This committee is asked to consider the

savings proposals and comment on them as part of the consultation process and to inform further development and decision making.

3. Issues, Options and Analysis of Options

Medium Term Financial Strategy 2015/16 – 2017/18

3.1 The Council agreed a MTFFS at their meeting on 26 February 2014 based on the following key assumptions:

- i. That further grant reductions in central government support would reduce year on year throughout the life of the MTFFS in line with government fiscal announcements;
- ii. That there would be annual increases in the amount that the Council would receive through business rate growth and New Homes Bonus;
- iii. That there would be a 1.99% annual increase in council tax along with an increase of 400 properties per annum;
- iv. That there would be a 1% pay award for all staff with the exception of senior management as well as incremental progression where staff are not at the top of their grade;
- v. That inflation would be limited to the Serco and Waste Disposal contracts as well as a provision for utilities;
- vi. That the Council would start to fix its temporary debt from the end of 2014/15, phased over the life of the MTFFS;
- vii. That growth for services, including for demographic demand, be set at a minimal level; and
- viii. That savings agreed at the budget Council meeting on 27 February 2013 over the two year period be delivered.

3.2 Based on these assumptions, the reported budget deficits were as follows:

2015/16	2016/17	2017/18	Total
£m	£m	£m	£m
15.8	11.7	9.4	36.9

3.3 Since the Council meeting, the following changes to the MTFFS have been made and so set the basis for future savings:

- Ongoing costs of New Ways of Working – With the level of savings to be achieved over the medium term and the changes that the Council will go through, it is the Head of Corporate Finance’s opinion that the approach should not be to budget for these centrally, but to recognise any related costs as a central expense that enables service transformation and to identify savings within the services (including central services such as legal and finance). The financial logic of transferring the responsibility to reduce cost to the services is to reduce the possibility of double counting and ensure that the ownership of savings requirements is clearer.
- NNDR Appeals – there are a number of appeals currently lodged with the Valuation Office by local businesses that, if successful, could be backdated as

far back as 2005. In the past these would have been met by the government but, despite the fact that the main proportion of this falls into the period before business rate retention, any impact is now shared between the government and the Council. This line reflects the Collection Fund Deficit treatment but there will be an ongoing adverse impact on business rate income that is factored into the MTFs elsewhere; and

- Purfleet – as land is drawn down for the development there will be a net loss to the Council in terms of income offset by maintenance etc. no longer required. Once complete, the development will realise additional income through Council Tax, Business Rates and the New Homes Bonus.

	2014/15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m
27 February 2014 Council Meeting	-	15.8	11.7	9.4	36.9
2014/15 Service Budget Changes	(0.2)				(0.2)
Ongoing Costs of New Ways of Working		0.5			0.5
NNDR Appeals		2.0	(1.0)	(1.0)	-
Purfleet			0.2	0.3	0.5
Revised Budget Deficits	(0.2)	18.3	10.9	8.7	37.7

3.4 The savings required to meet these deficits will be challenging and the Council does not have excess reserves to be able to fall back on should there be slippage in their delivery. As such, the approach is to bring forward £3.5m of the savings requirements that will serve three purposes:

- It will provide a cushion should some of the savings not be achieved fully in 2015/16;
- It will help manage any adverse outcomes on the assumptions made; and
- It will provide an opportunity to make a contribution into the Budget Management Reserve to provide further resilience to the Council's financial position.

	2014/15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m
Revised Budget Deficits	(0.2)	18.3	10.9	8.7	37.7
Adjustment	-	3.5	-	(3.5)	-
Adjusted Budget Deficit	(0.2)	21.8	10.9	5.2	37.7

3.5 The proposals to bridge these budget deficits are included in a report later on this agenda within the context of the Council's Vision and Priorities.

Other Assumptions Excluded from MTFs Totals

3.6 The main assumptions that have led to the totals above have been set out in this and previous reports. However, the following assumptions **have not** been included within these totals:

- i. The Care Act 2014 will increase the costs to the Council considerably through the new legal responsibilities that fall on the Council from April 2015 and the funding reforms / Dilnot changes from April 2016 (both the cap on individual contributions but mainly through the change to the capital threshold). A full report on these will be going to the Health and Well-Being Board and DB. The government has stated that these costs will be fully reimbursed but there remains a risk that this will not happen in which case a further report will need to come back to Cabinet on how these costs will be met;
- ii. There may be development surpluses through Gloriana Ltd – these have not been included at this time as there is a degree of uncertainty;
- iii. Limited provision for an increase in the demand for services has been included – careful monitoring of the impact of regeneration, welfare reform and general demographic pressures will be required, especially in Adults', Children's, Planning and Transportation, Environmental and Housing Services.
- iv. There will undoubtedly be a cost of severance from savings proposals and the Voluntary Redundancy scheme. A separate budget has not been set aside for this and so the first approach will be for the services to contain the costs within their services with any excess being met from the Budget Management Reserve.

Serco

- 3.7 During the Cabinet meeting in July 2014, Cabinet were informed that the only overspend within 2013/14 related to Serco. The Council agreed a target saving of £1m in 2012/13 and, for the second year in a row, a lack of acceptable savings has been brought forward for officers to be able to agree. This follows a history of non-achievement of savings with the Council's Strategic Services Partner (Serco's predecessor, Vertex) in 2010/11 – 2011/12 as well.
- 3.8 At the Cabinet meeting on 2 July Cabinet moved an additional recommendation that expressed "its disappointment at SERCO's inability to meet savings targets for the past two years and expect SERCO to meet savings targets in forthcoming years".
- 3.9 From 2015/16 Serco, who deliver a number of direct and support services on behalf of the Council, have been set a savings target of £2m, over 3 years, £700K in 2015/16, £900K in 2016/17 and £400K in 2017/18 . These savings include efficiencies in administrative support, HR/payroll service and savings in IT provision.

A detailed business case regarding Serco savings will be presented to members in September.

Savings proposals 2014/15 – 2017/18

- 3.10 In recent months Directors Board has been considering how to reshape services given the forecast financial position. This has been particularly challenging due to the scale of savings already achieved and the continuing growth of pressures on services, mainly due to the demographic changes as set out above. As part of this process during January and February all staff were invited to put forward their suggestions. Over 400 were received and have been considered by Directors Board, directorate management teams and at the executive boards, feeding into the proposals put forward to Members as part of this report.
- 3.11 Directorates have been able to identify both efficiency savings and more significant or innovative ideas as to where reductions in budgets can be made. Where possible alternative service delivery options have been considered to prevent considerable reductions in the level of service. Inevitably though there are some proposals where significant services would reduce or stop.
- 3.12 Initial savings ideas involving changes to services were shared with Cabinet members as part of Strategy Week in June 2014 in order to provide a policy steer. Cabinet agreed a number of the proposals in July 2014 for further development and public consultation including consideration by the relevant Overview and Scrutiny committees. These include some ideas that are particularly challenging, innovative and financially significant.
- 3.13 Appendix 1 sets out the savings proposals for central services including Chief Executive's office, Chief Executive's Delivery Unit and Commercial Services.
- 3.14 Appendices 2a, 2b and 2c sets out the initial business cases for the savings proposals subject to consultation.
- 3.15 A detailed business case in relation to savings proposals/options for the Thameside Building is going to Cabinet in August, after which, subject to agreement by Cabinet, will come to Corporate Overview and Scrutiny Committee in September.
- 3.16 This committee is asked to consider the savings proposals and comment on them as part of the consultation process and to inform further development and decision making.

Remaining Budget Gap

- 3.17 Despite the efficiencies and management action already agreed and proposals put forward, which total £26.5m across all services, this leaves an £11.2m shortfall against the budget gap in the MTFS of £37.7m over the three financial years. This assumes that all proposals are implemented. As set out above the Council does not have sufficient reserves to meet this gap or to replace any proposals that may not be agreed, fail to be implemented or if

there is slippage in their delivery. Additional savings proposals will need to be developed particularly to address the £5.4m gap for 2015/16 (the net effect of 2014/15 and 2015/16 as below). Directors Board will develop these during July for consideration at a budget focused additional Cabinet meeting in August. This meeting will also focus on the cumulative impact of the reduction in budget and implementation of all the proposals on service delivery including our ability to meet statutory duties and the implications for staff.

3.18 These are summarised as follows:

	2014/15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m
Adjusted Budget Deficit	(0.2)	21.8	10.9	5.2	37.7
Appendix 2 Savings (2014/15 savings already accounted for)	(0.1)	(9.3)	(4.4)	(2.8)	(16.6)
Appendix 3 Savings	(0.4)	(6.4)	(2.5)	(0.6)	(9.9)
Remaining Projected Deficits	(0.7)	6.1	4.0	1.8	11.2

4. Reasons for Recommendation

4.1 The Council has a legal obligation to set a balanced budget. The reduction in funding to the Council is unprecedented at a time when demand on services is growing, requiring a fundamental change in the way the Council approaches addressing the budget gap and in considering the future shape of the Council going forward. Members are asked to consider the specific savings proposals proposed for central services as part of the consultation process to inform further development and decision making.

5. Consultation (including Overview and Scrutiny, if applicable)

5.1 During Strategy Week, Directors Board, the Leader and Cabinet have been consulted on the key elements feeding into this report. Senior managers throughout the council have also been involved in identifying potential savings options and all staff have been widely consulted for additional ideas, which have also been considered.

5.2 Specific savings proposals will require detailed business cases and, where appropriate, be subject to public consultation including:

- Overview and Scrutiny committees to consider the proposals in July
- Public consultation during the summer as required
- Cross party Member and partner working group to consider all proposals
- Budget focused additional Cabinet meeting in August covering specific issues including community hubs
- Partner and supplier consultation on specific proposals as required
- Consultation with staff including trade unions from July and August

- 5.3 The outcomes of the consultation will feed into the final proposals put forward for decision making at the earliest opportunity in September and October 2014 followed by implementation.
- 5.4 The consultation will be supported by a comprehensive communication plan for external engagement during the consultation and decision making process.
- 5.5 Internal consultation with staff on specific proposals particularly where there is a restructure will be in line with HR policy and guidelines.

6. Impact on corporate policies, priorities, performance and community impact

- 6.1 The proposals set out in this report have wide ranging implications for the Council, the way it works and the services it provides. Some of these will improve the way the Council does business and the service provided to residents by making them more targeted and efficient, however the cumulative impact of such a significant reduction in budget and the implementation of savings proposals will change service delivery levels, our ability to meet statutory requirements and therefore impact on the community and staff. The potential impact of the savings proposals on the Council's ability to safeguard children and adults will be kept carefully under review and mitigating actions taken where required.
- 6.2 The Council has commenced a voluntary redundancy process with staff. The outcomes from the process and full impact of the savings proposals on staff will be known over the next few months feeding into the implementation of management actions and decision making for savings proposals.
- 6.3 The changes and impact for each proposal in Appendix 1 is set out in the detailed business cases attached to this report including where policies and performance may change as a result. The impact on the community is covered under section 7.3 below.

7. Implications

7.1 Financial

Implications verified by: **Sean Clark**
Head of Corporate Finance

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

Council officers have a legal responsibility to ensure that the Council can contain spend within its available resources. This must also include a consideration of the risk in achieving that budget and so robust monitoring of accepted proposals will be essential throughout the coming years.

7.2 Legal

Implications verified by: **Fiona Taylor**
Head of Legal and Democratic Services

There are no specific legal implications as a result of this report, however, any implications of specific savings proposals are set out in individual business cases to inform consultation and final decision making.

The Council's Section 151 Officer has a statutory requirement to set a balanced budget.

7.3 Diversity and Equality

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

Each savings proposal with changes to the service requiring public consultation has a detailed business case setting out how the saving will be achieved including the level of service reduction and mitigating actions. As part of developing the business case a comprehensive Community and Equality Impact Assessment (CEIA) will be completed, informed by the public consultation. An assessment of the cumulative impact from all the CEIAs will be completed by the Community Development and Equalities team to inform final decision making on the savings to be made for 2015/16.

It is recognised that there is likely to be a cumulative impact on the voluntary and community sector due to proposals to both reduce core grants and specific grants currently provided by services across the Council. A full assessment will be completed in consultation with the CVS to determine the implications for the sector and impact on the wider community.

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

Other significant implications are identified in each business case to inform the consultation process and final decision making.

8. Background papers used in preparing the report

- Budget savings proposals working papers
- Cabinet reports, July 2014: 2013/14 Draft Outturn and MTFS Update; Shaping the Council 2015/16 and Beyond

9. Appendices to the report

- Appendix 1: Central services savings proposals for 2014/15 – 2017/18
- Appendix 2: Business cases
 - a) Local residency rule LCTS
 - b) Council Tax discount on empty homes
 - c) Voluntary Sector Core grants

Report Authors:

Sean Clark, Head of Corporate Finance, Chief Executive's Office

Karen Wheeler, Head of Strategy & Communications, Chief Executive's Delivery Unit

Jackie Hinchliffe, Head of HROD & Customer Strategy

Fiona Taylor, Head of Legal & Democratic Services

Kathryn Adedeji, Head of Commercial Services