

<b>17 September 2015</b>		<b>ITEM: 5</b>
<b>Corporate Overview and Scrutiny Committee</b>		
<b>Shaping the Council and Budget Update</b>		
<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 Public</b>		

### **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 held a series of meetings during August and September 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. These initial meetings conclude later this month.

This report provides the Committee with an update on the budget pressures in 2015/16 and 2016/17, and a summary of the Budget Review Panel discussions to date.

## **1. Recommendation(s):**

- 1.1 That Corporate Overview & Scrutiny Committee understands the current financial position and potential pressures in both 2015/16 and 2016/17 and agrees to an additional report in December to update on the options to address the pressures following Cabinet consideration in the Autumn.**
- 1.2 That the Committee support the governance arrangements for the Serco transition, including the role of the Member Governance Group as set out in paragraph 3.12 and notes that a further update report will be brought to Cabinet in October.**
- 1.3 That the Committee provide any feedback on the Budget Review Panel discussions to date to inform the 'wrap-up' session on 21 September 2015.**

## **2 Introduction and background**

- 2.1 The Council set a balanced budget for 2015/16 having made some difficult decisions about where savings could be made. There are still pressures in the current financial year and these will escalate in the following years. The cumulative effect of having to make £83.2m savings over the last 6 years is now visibly impacting upon communities. The Council's ability to make further savings has become increasingly challenging.
- 2.2 The ability to make further savings through efficiencies and 'top slicing' service budgets is increasingly difficult, pushing some services to statutory limits and unsustainable levels. 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.
- 2.3 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.

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

- 3.1 The MTFS is set out at Appendix 1 of this report, as presented to Cabinet in July 2015, but now assumes a number of the 2015/16 pressures are carried forward and includes the impact of the cessation of the Serco contract. If any mitigating action is taken this year that is of a permanent nature, this will reduce the impact in future years. Officers will review the 2015/16 pressures to minimise the impact on future years and include a detailed analysis in a report to Cabinet in the Autumn.

## 2015/16

- 3.2 There are already a number of pressures within the 2015/16 budget that need to be considered and, if not resolved, become an addition to the 2016/17 projected deficit reported elsewhere in this report. These were reported to Cabinet in July with the exception of the change to the disposal of recyclable waste through the Council's contract with Sita.
- 3.3 Nordic Recycling Ltd (owned by Sita) were responsible for the disposal of recyclable material collected by the Council but have gone into liquidation forcing a change and closure of the plant in Tilbury. This has resulted in significantly increased disposal costs and longer transfer times to Bywaters in Canning Town. Officers continue to explore a more sustainable, cost-effective option for the future.
- 3.4 To summarise, the impact on 2015/16 to be met from either reserves or additional savings, is as follows:

	<b>2015/16 £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.

- 3.5 In addition to the above, Members should be aware that there are a number of other service pressures, notably within social care, that are currently being managed within the budget envelope. These are being closely monitored and reported accordingly going forward.
- 3.6 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 Environmental Services cost pressures although discussions are continuing on whether any expenditure reductions can be met to mitigate this pressure.

- 3.7 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.

### **Serco**

- 3.8 Members have received various updates on the Council's contract negotiations with Serco and it is clear that there are significant financial opportunities open to the Council through the Shaping the Council programme.

### **Update and Governance**

- 3.9 Following the announcement that the Strategic Services Partnership Agreement was to be terminated on 21 July 2015, the Council and Serco have been working together to undertake the necessary due diligence to prepare for the transfer of services back to the Council on 1 December 2015. The majority of this work has focussed on building the Council's understanding of the various services; the circa 400 staff that deliver them and the systems and processes which they use to ensure that the Council is able to effectively operate from day one.
- 3.10 Both the Council and Serco are keen to minimise disruption as far as possible to ensure a seamless transition in a range of critical areas including customer service, revenues and benefits and business administration. As a result, whilst Serco will no longer be managing the delivery of the services from 1 December they will, as far as possible, continue to be delivered by the same people, from the same place and using the same systems as now.
- 3.11 To date, the due diligence process has not identified any major issues which would preclude the return of services. There remains, however, a significant amount of work to complete between now and 1 December with TUPE consultation with affected staff (which commenced in late August) and more than 50 contracts with suppliers to transfer from Serco to Thurrock ranging from IT systems and licenses through to Facilities Management.
- 3.12 Recognising the importance of a successful transfer to the ongoing operation of the Council, a full report will come to Cabinet in October with the Member Governance Group continuing to provide strategic oversight of the transition programme. This committee will also have an opportunity to scrutinise the transfer arrangements with updates provided as part of the budget update and/or performance monitoring agenda items at each meeting.

### **Financials**

- 3.13 As reported to Cabinet, the key financial drivers to terminating the contract centred on budget reductions throughout the Council but, in contrast, an inability to achieve material savings from the Serco contract.

- 3.14 The full year cost of the contract is in excess of £18m. Analysis has shown that the Council can make an immediate saving of £3.6m per annum and are confident that, the greater flexibility in terms of controlling the resources within the contract, will lead to significant opportunities for further efficiencies.
- 3.15 The impact of this saving on the General Fund is £3.1m with the balance benefitting the Housing Revenue Account.
- 3.16 The cost of termination has been previously announced and published at £9.9m and this can be met from reserves created in 2014/15, mainly through a new approach towards budgeting for the Minimum Revenue Provision and related ongoing savings.
- 3.17 There is a further financial liability that has been capped at £3.5m that relates to Serco's pension position within the Essex Pension Fund. The contract ties the Council into having to reimburse Serco the valuation of any pension fund 'surplus' at the time the contract ends. As such, this is not a new liability but one that has been brought forward due to the earlier termination of the contract.
- 3.18 There are two areas of uncertainty. An early valuation indicated that the fund was likely to be in surplus but any final amount will not be known until March 2016 as the contract requires the amount to be set as the average of three valuations – the termination date, three months earlier and three months later.
- 3.19 The second uncertainty relates to a decision pending from the Essex Pension Fund, due mid-September. The Council already makes annual contributions to the fund. As any surplus would be transferred into the Thurrock Council element of the Pension Fund, there is a debate as to whether this could replace the budgeted contribution that the Council is due to make on 1 April 2016.
- 3.20 This would set a precedent though and so is a decision of the Essex Pension Board. Should they agree the cost to the Council would be cost neutral but, if not agreed, this liability would need to be met from any reserves and the General Fund balance of £8m. If the latter, the MTFs would need to be amended to reflect a repayment plan to bring the balance back to the recommended level.

### **2016/17**

- 3.21 The MTFs now 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 of Cabinet.
- 3.22 The aim is to achieve this largely through efficiencies and the use of the demographic growth provision within the MTFs if possible. If this can be achieved, this would allow officers and Members to concentrate on reshaping the Council and reaching agreement on proposals for implementation to

impact the budget for 2017/18 and beyond. As agreed as part of the Budget Review Panel process, Corporate Overview & Scrutiny Committee have the role of overseeing the Shaping the Council programme (see below).

- 3.23 To put all of the above in perspective, the Council's net published budget in 2010, increased for comparison purposes for Public Health, was calculated as £134m and, despite significant inflationary, service demand and new burden pressures, is estimated to be circa £93m by the end of this decade.

#### **4 Shaping the Council**

- 4.1 In July 2015, Cabinet endorsed the approach to shaping the Council and the budget planning process based on discussions in Strategy Week, held in June 2015, which focused on the financial challenge and wider context. The week brought together the Council's Leadership Group with other officers from across services, partners and Members to consider the areas of priority and cross-cutting opportunities.

##### **Budget Review Panel**

- 4.2 As part of this agreed approach the cross-party Budget Review Panel held a series of meetings during August and September, and will finish with a wrap-up session on 21 September.
- 4.3 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.
- 4.4 The Panel is not decision making. Areas identified by the Panel will be considered alongside the outcomes from Strategy Week and drawn together to identify areas for public consultation and review by Overview and Scrutiny (O&S) Committees. There is a role for Corporate Overview and Scrutiny Committee to take an overview of the whole Shaping the Council programme.
- 4.5 As at the report deadline date, five Panel meetings had taken place covering Environment, Central Services, Adult Social Care and Health, Children's Services and Education, Housing and Communities. Key themes discussed so far have included:
- complexity of options for waste and recycling collections;
  - exploring alternative delivery models and income generation opportunities;

- maximising opportunities for joint commissioning and managing the market for services;
- benefits of early intervention and prevention on helping to manage the growing demand for adult, health and children's services;
- 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; and
- exploring ways for the General Fund to buy services to support public protection/anti-social behaviour activity from the Housing Revenue Account (HRA).

4.6 A detailed summary of feedback from the panel meetings held so far is included at Appendix 2. One further meeting covering planning, regeneration and transportation will be held on 15 September (a verbal update will be provided at the meeting). The Committee is invited to provide any feedback on the discussions to date to inform the wrap-up session on 21 September.

### **Let's Talk**

4.7 The Council's approach to communication, consultation and engagement with residents, stakeholders, staff and Councillors through Overview and Scrutiny Committees is a fundamental part of the Shaping the Council programme.

4.8 Part of the approach agreed by Cabinet in July was to reintroduce Let's Talk - Cabinet and Directors Board question and answer sessions in the community. These sessions will start on 30 September and run throughout the Autumn across the borough providing an opportunity to raise awareness and start conversations with communities to seek their views on the potential strategic solutions in the longer-term and their ideas about what we could do differently and levels of services. It will also enable Cabinet and senior officers to engage with communities in thinking about how they can help, for example, through recycling effectively, reducing litter and volunteering.

## **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 The approach to communication, consultation and engagement with residents, stakeholders, Overview and Scrutiny Committees and staff is set out above. This will include a wide awareness raising campaign and conversations with communities as well as consultation on specific savings proposals when identified.
- 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 such as the Care Act. 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
- Strategy Week papers held in Strategy and Communications

## **11 Appendices to the report**

- Appendix 1 – Medium Term Financial Strategy
- Appendix 2 – Feedback from Budget Review Panel Meetings

### **Report Authors:**

Sean Clark, Head of Corporate Finance/S151 Officer, Chief Executive's Office

Karen Wheeler, Head of Strategy and Communications, CEDU