

## AGENDA ITEM

### REPORT TO COUNCIL

16 SEPTEMBER 2015

### REPORT OF CORPORATE MANAGEMENT TEAM

## MEDIUM TERM FINANCIAL PLAN - UPDATE

### SUMMARY

This report provides members with an update of the Medium Term Financial Plan (MTFP) and to propose the Big Picture programme to be delivered over the next 3 years to address the financial pressures facing the Council. The financial outturn position as at 31 March 2015 is reported elsewhere on this agenda.

### RECOMMENDATIONS

At its meeting held on 16 July 2015 Cabinet agreed:

1. Members allowance will be frozen for another year.
2. £300,000 be approved from the Transformation Reserve to fund the investment to save opportunity with Tees Active Limited.
3. Changes in Senior Management be agreed in principle and a further report be received outlining the proposals in September 2015.

Recommended to Council:

4. Note the level of funding reductions and approve the savings identified at **Appendix A**.
5. Approve that the reviews of Services outlined at **Appendix B** be undertaken.
6. Note the concerns about the operation of the Business Rate Retention Scheme and continue to press for a fairer, more appropriate funding regime.

### BACKGROUND

1. The Council has seen a significant reduction in Level of Government funding in recent years. Between 2010/11 and 2015/16, there has been a reduction of £52m which is a 42% cash reduction or 59% when inflation is taken into account. This means that the Council's budget overall has reduced by 30% and as a consequence staffing numbers have reduced by approximately 700.
2. Councils have not been notified of the funding allocations for 2016/17 and future years. There have been various announcements confirming public sector funding reductions but the impact on Local Government specifically has not been identified. Despite there being a budget in July, further detail of funding is unlikely until the autumn. Every indication is that funding reductions will continue and the current Medium Term Financial Plan (MTFP) assumes reductions of 9% in each of the next 3 years. This equates to an additional £15m

reduction. It is possible however, that reductions are higher than this or are more front loaded, placing an additional pressure on the MTFP.

3. The Government announced a series of in year budget funding reductions in June. Although core Local Government funding was not reduced, the public health grant was reduced, in year by £200m nationally. Consultation is underway on how this will be implemented and it is estimated that the funding allocated to Stockton will reduce by approximately £1m. This can be accommodated through contingency and underspends in this year but it is possible that this reduction will continue into future years.

## **Approach to Financial Management and Savings**

4. The Council has for many years had a long term approach to financial planning. Back in 1996, we were one of the first Councils in the country to introduce the concept of medium term financial planning. This included restricting resource increases to services to below inflation which encouraged a culture of innovation and efficiency, with value for money being a key management competency. For many years this also generated headroom to enable investment in the Borough, service improvements and enhancements, and pilot approaches to changes in service delivery.
5. This long history of delivering strong financial management and a culture of delivering value for money is recognised by external agencies. Members will recall that the Council was one of only two Councils in the Country to achieve the highest rating for the Use of Resources assessment as part of the Comprehensive Performance Assessment Framework. This has continued to be recognised by our External Auditors who reported that “the Council has maintained proper arrangements for securing value for money in its use of resources during the year” and that “the Council continues to have a strong approach in considering a range of options, regularly updating and agreeing its plans well ahead of the relevant financial year”.
6. This approach has enabled a managed and planned approach to delivering savings. The Council has already delivered savings of over £34m. This has been achieved through:
  - Freezing budgets and changes to employee terms and conditions
  - A programme of Efficiency, Improvement and Transformation Reviews, covering all service areas
  - Members scrutiny reviews
  - Innovative changes to delivery models (e.g. Xentrall)
  - Reductions to Members Allowances including fewer Cabinet, Chair and Vice Chair positions, reducing special responsibility allowances and freezing all allowances since 2013/14
  - Use of reserves to allow invest to save schemes such as the Street Lighting replacement programme.
  - A focus on ‘Big Ticket’ areas of spend to stem growth and deliver savings.
7. This approach has allowed us to manage HR issues in a sensitive manner. We have effective management of change and staff consultation policies, as evidenced in the employee survey results which since 2010 have continued to be very positive. We also have constructive relations with the Trade Unions. In addition the Council has recognised the need for change and to develop our capacity, succession planning and new ways of working through the Shaping a Brighter Future programme. In developing the Shaping a Brighter Future programme we have continued to embed the principles of the Association of Public Service Excellence Ensuring Council model of local government in our working practises. The principles of stewardship, maintaining core capacity to provide services, municipal entrepreneurialism and collaboration remain key to our successful way of working.

8. At the same time our approach has allowed us to invest in the Borough through pump priming initiatives and providing match funding to lever in significant external resources including an extra £500,000 from the Arts Council and a potential £2 million from Townscape Heritage.
9. Opportunities to invest to save will continue to be sought. One such opportunity is to support Tees Active Limited to purchase and install a Hangfast system at Billingham Forum. The system is a climbing wall and evidence suggests that accessible climbing facilities are proving financially viable and popular across the UK. Tees Active Limited is seeking £300,000 one-off investment and expect to generate £100,000 saving from the annual Management fee charged to the Council from 2016/17 as a result. This provides an investment to save opportunity to be funded by the Transformation Reserve and is recommended for approval.
10. The Council will need to continue to deliver significant savings to increasingly challenging timescales, and whilst difficult decisions will be required, we will continue with our planned approach. Increasingly, as more savings are required there will be a need to target services to areas of most need and in particular to protect the most vulnerable.

### Update to the Medium Term Financial Plan

11. The MTFP approved by Council in February 2015 outlined the following budget position for 2016/17 to 2018/19.

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
Core Gap	3,864	7,295	11,179
Big Ticket (Target Savings)	3,748	4,632	6,210
<b>Total Gap</b>	<b>7,612</b>	<b>11,927</b>	<b>17,389</b>

The table demonstrates the core gap and the Growth pressure within the Big Ticket Areas and associated target savings. The report in February also made available £6.1 million in reserves to support the budget gap and allow time for savings to be delivered.

### Business Rate

12. The MTFP has been updated, in particular to reflect changing circumstances and the position surrounding Business Rates. Members will be aware from previous reports of the complex nature of the Business Rates Retention Scheme and the added uncertainty this causes to medium term financial planning.
13. In simple terms, the Council should benefit through growth in the local economy by retaining 50% of business rates. The uncertainty however is caused by appeals and changes to rateable values which are dealt with by the National Valuation Office and are completely outside of the Council's control. In addition there is a lack of information from the Valuation Office which means that information on changes / appeals cannot be anticipated.
14. Despite significant growth in the local economy, Business Rates income has not increased. The growth should have resulted in increased income of £2.8m however this has been completely offset by the appeals to the National Valuation Office.
15. The Council has recently been notified of a tenfold in the increase number of appeals in the last quarter of 2014/2015 financial year. An estimate of the likely cost of these appeals has

been made and this is estimated at over £1.5m for the backdated element with an ongoing impact of £330,000 per year.

16. In addition, Virgin Media currently operates and pays Business Rates in over 60 local authority areas. This includes an office and telecommunications base in Stockton. The business has lodged an appeal nationwide and is contending that its properties should be removed from the Business Rates Retention System and handled nationally. If this appeal is successful, it would mean a backdated cost of £2.3m with an ongoing impact of £450,000 per year.
17. The impact of the appeals, which are totally outside of the Council's control, is to increase the budget gap by £4.8m in 2016/17 and £770,000 ongoing.
18. The Council has taken opportunities to raise these issues with the Valuation Office, Members of Parliament, Department of Communities and Local Government and in response to a recent consultation exercise we have suggested that the system is broken and needs fundamental reform.

### Other Updates

19. The plan has also been updated to assume that the public health funding reduction of approx. £1m per year will continue into future years.
20. The Big Ticket position has also been incorporated into the plan. Members will be aware from the report in February of the challenges around the Children's Big Ticket area. These challenges continue and whilst some work is ongoing, the appointment to the Head of Planning, Partnerships and Early Help, post will ensure progress is made in exploring opportunities to reduce pressures further. The MTFP and target saving in this area reflects the current numbers of looked after children and the time it will take to start effecting changes to reduce spend.
21. Following implementation of the Better Care Fund and the development of proposals for integrated working, a number of social care services have been re-designated to form a multi-disciplinary team and this is reflected in the updated MTFP.
22. The updated Medium Term Financial Plan can be shown below.

	2016/17	2017/18	2018/19
<b>Previously approved MTFP Position</b>			
Core Budget Gap	3,864	7,295	11,179
Children's Pressure	2,191	2,516	3,173
Adults Pressure	1,600	2,400	3,200
Energy & Waste	-43	-284	-163
Budget Gap	7,612	11,927	17,389
<b>Changes to the MTFP Position</b>			
Re alignment of Social Care Expenditure	-2,000	-2,000	-2,000
Public Health Reduction	940	940	940
NDR Appeals	4,770	770	770
<b>Updated Gap</b>	<b>11,322</b>	<b>11,637</b>	<b>17,099</b>

The position incorporating the Big Ticket savings targets is as follows:

Big Ticket Savings Target	-1,600	-3,400	-4,700
<b>Shortfall</b>	<b>9,722</b>	<b>8,237</b>	<b>12,399</b>

23. Cabinet and Council have always been clear that there will need to be further budget reductions. Unfortunately, the impact of Business Rate appeals means that the savings need to be delivered earlier and to tighter timescales than had previously been anticipated. Even utilising the £6.1m reserve there is now an expected gap of £3.6m in 2016/17.

### Big Picture Programme

24. Despite the levels of funding reductions, the Council has continued to deliver high quality services to all parts of the Borough across a wide range of areas and has tried to protect front line services. Given the continued funding reductions however this becomes harder and harder and a significant programme needs to be developed across the organisation to address the budget gap. This will be the Big Picture programme.
25. The proposed approach by Cabinet to addressing the budget gap is two-fold. Firstly, there are a series of specific proposals which cabinet will recommend are implemented. These are shown in detail at **Appendix A, Section 1**. Whilst the reductions will clearly have an impact, they are mainly back office or savings where there is minimal impact on front line service delivery. These will deliver £3.5m by 2018/19. These include :
- A review of senior management to reflect different ways of working across the organisation and its inevitable 'shrinkage'. This is covered further in paragraph 31 onwards.
  - Proposes further reduction in processing, organisational support and administration.
  - Proposes reviews in a number of areas further utilising technology to improve service efficiency
  - Budget savings and income generated which will have minimal impact on front line services
26. Members will be aware that the Council has for many years continued to develop services and look at ways of delivering efficiencies. **Appendix A, Section 2** outlines areas where it is proposed to explore opportunities for using technology and process review methodologies to deliver service transformation and further efficiencies. Savings are estimated and whilst Cabinet are recommending that these reviews are undertaken, details of the actual savings delivered will be reported back to Cabinet at a future date. The Council has for many years applied process review methodologies. Building on this strength, the Council will explore opportunities to work with experienced private and public sector partners in a peer challenge – type initiative to support the delivery of this aspect of the programme. These reviews are expected to deliver £2m by 2018/19.
27. Given the level of savings required, the Council cannot continue to provide all of the services we do at the same level, in the same way and to the same standards. Even with the savings and efficiencies outlined in **Appendix A**, there is an estimated gap of approximately £6.9m and this will require changes in the level of front line services. It is inevitable that we will need to provide a differential level of service with fewer universal services and more services targeted to areas of most need. In some areas there will be a reduction in service standards.
28. **Appendix B** identifies the front line services which will be subject to a detailed review. These reviews will include appropriate consultation and impact assessments and will be reported back to Cabinet prior to implementation. Youth services, Children Centres and waste/refuse collection will be wide-ranging and will be reported in to/undertaken by Scrutiny Committees. Overall they will aim to deliver the £6.9m required to balance the budget and they will need to consider :
- Statutory responsibilities
  - The service specifications, levels and standards
  - Targeting the services to the areas or people in most need

- The requirement for differential service levels (e.g. this principal has already been agreed by Cabinet for the library service)

29. The updated Medium Term Financial Plan, incorporating these changes and savings proposals can be shown below:

	2016/17	2017/18	2018/19
<b>Updated Gap</b>	<b>11,322</b>	<b>11,637</b>	<b>17,099</b>
Appendix A - Approval to Implement	-2,640	-3,145	-5,545
Appendix B Service Reviews - Report back to Cabinet	-900	-5,000	-6,900
Adult Big Ticket Target Saving	-1,600	-2,400	-3,200
Children's Big Ticket Target Saving	0	-1,000	-1,500
Balance of Reserve b/f	-6,100		
<b>Shortfall</b>	<b>82</b>	<b>92</b>	<b>-46</b>

Clearly given the budget position and level of savings required, there needs to be an extremely cautious approach to any new commitments.

30. Work on delivering these savings proposals will be supported by a communications campaign called "The Big Picture" campaign through which we will provide information about how the Council spends money in the borough as well as updates about the financial position and how we are responding to the huge challenge of tackling a £17 million shortfall in our budget by 2018/19. The campaign will include information about the services we provide and the challenge we face to meet the many competing demands. It will be a highly visible campaign, featuring prominently in Stockton News on the Council website, in public buildings and on Council vehicles. The information will also be provided to all Members and staff to assist them in their communication with residents. The aim is to help our partners and residents to understand that:

- We provide a huge range of services and many of those that cost a lot of money (such as social care) are not visible to many people in the borough.
- We still have big ambitions and we want to make sure Stockton-on-Tees remains a thriving borough for everyone.
- Over the next few years we will face our biggest financial challenge yet – to reduce our budget by £17 million by 2018. There will be some really tough decisions to make, there are many demands on our budget and we won't be able to meet them all. This is at a time when demands for many of our services are increasing.
- We have a strong track record of sound financial management. We'll continue to tackle this challenge in a planned, orderly and careful way. We'll continue to deliver genuine value for money, to be innovative, to change the way we work and to rethink the way services are delivered to make the Council even more efficient. and most importantly,
- We will continue to put our residents at the heart of everything we do and to make sure that the money we have can make the biggest difference to the people that need it the most.

### Management Capacity and Organisational Change

31. There is a significant workload involved in delivering the programme outlined in this report. There is also a significant work programme around the current Big Ticket areas and a number of high profile, complex and large scale regeneration projects such as, development of the Combined Authority, leisure facility in Ingleby Barwick, major housing initiatives such as the Victoria Scheme, etc. which need to be delivered in the same timescales.

32. Many of the reviews are large scale and complex and will result in new ways of working and as well as identifying capacity in the organisation, leadership and drive will be critical to ensuring the programme is delivered. This is a three to four year service and organisational redesign programme. This will also include fundamentally different ways of working and it is inevitable that the organisation will be smaller. It is difficult to predict exact numbers at this stage but this could be a reduction in employees of the order of 300-400 and will look very different following these changes. We will continue to operate our effective management of change and consultation policies and to engender constructive relations with the Trade Unions.
33. It is also important that we continue to deliver services whilst these changes are taking place.
34. The Council has previously recognised that dedicated capacity does result in enabling change to be implemented and the approach to the Adult Big Ticket programme is an example of this approach.
35. Cabinet agreed the Shaping the Brighter Future Programme to recognise the need to develop the organisation in advance of these challenges and this is progressing well. Many of the principles of the programme can be used to support the agenda moving forward.
36. A report outlining a review of the Senior Management structure is also on this Council agenda.
37. Cabinet considered the item on 16 July 2015 and a copy of the relevant minute extract is attached to the report.

#### **FINANCIAL IMPLICATIONS**

38. The proposals outlined in this report will deliver savings of £5.5m with a series of reviews aiming to deliver a further £6.9m

#### **LEGAL IMPLICATIONS**

39. None directly through this report

#### **RISK ASSESSMENT**

40. The changes outlined in the report will have a significant impact across the Council and individual reviews will consider the risks. The actions in the report are to mitigate the risk associated with funding reductions placing the Council in financial difficulty.

#### **SUSTAINABLE COMMUNITY STRATEGY IMPLICATIONS**

41. The community strategy is considered alongside the proposals.

#### **EQUALITIES IMPACT ASSESSMENT**

42. Impact assessments will be undertaken where appropriate as part of individual reviews.

#### **CORPORATE PARENTING**

43. N/A

#### **CONSULTATION INCLUDING WARD/COUNCILLORS**

44. Where reviews and proposals identify consultation is required, this will be undertaken as part of the process.

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