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| MEETING : | CABINET |
| DATE: | 16 MAY 2013 |
| TITLE OF REPORT: | SERVICE BUDGET REDUCTIONS AND FUTURE FINANCIAL PLANNING |
| REPORT BY: | CHIEF OFFICER FINANCE AND COMMERCIAL |

1. Classification

Open

2. Key Decision

This is a Key Decision because it is likely to result in the Council incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budget for the service or function to which the decision relates.

It is also a Key Decision because it is likely to be significant in terms of its effect on communities living or working in an area comprising one or more wards in the County.

Notice has been served in accordance with Part 3, Section 9 (Publicity in connection with key decisions) of The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 under Regulation 10, General Exception.

3. Wards Affected

County-wide

4. Purpose

To progress the Council's change programme, to report on the service plan reviews for 2013/14 conducted in March/ April aimed at de-risking identified areas of weakness to ensure the Council's plans are resilient and remain within its overall funding envelope of £150.296 million, and to seek Cabinet agreement on next steps.

5. Recommendation(s)

THAT: (a) Cabinet agrees the change programme approach, as set out in the report, to initially focus on additional actions required in 2013/14, to ensure the Council stays within budget in 2013/14; and further, to progress the re-shaping of Council services to ensure sustainability in the medium-long term

(b) Cabinet accepts the timetable outlined in the report for the 2014/15 Budget and Medium Term Financial Plan.

6. Key Points Summary

- In common with normal good practice, the new Chief Executive conducted a review of all service plans to identify and de-risk potential areas of delivery weakness.
- The review identified an £8.432 million net gap in the ability to deliver a balanced budget. This comprises £7.402 million in Peoples Services and £1.032 million of procurement savings.
- The reviews have brought forward some schemes which were due to commence later in the year, where possible proposals have been identified which enable the Council to take action this year to address some of the reducing government grant allocations for the next two years.
- Planning for the next budget cycle and Medium Term Financial Plan will commence in May 2013. This will include a review of core Council services and functions, to consider how the Council can successfully meet the challenges of the following two years which require a further £23 million of reductions.

7. Alternative Options

- 7.1 There is no alternative to ensuring that services operate within total Council budget limits, however there are alternatives to approaches that may be taken to continue services and functions that the Council may be unable to fund in future.

8. Reasons for Recommendations

- 8.1 The Council must stay within its available resources to ensure it does not deplete its reserves and delivers financial stability in the light of ongoing Government reductions in funding.

9. Introduction and Background

- 9.1 Herefordshire Council has made budget reductions of £21.1 million over the last two years, and needs to plan further reductions of £32.2 million over the next 3 years, starting with 2013/14. This is the challenging environment that all Councils are working in at present, and it is important that Herefordshire Council's plans are as resilient as possible.
- 9.2 Whilst these funding reductions are challenging for the organisation, they also present the opportunity for the Council to position itself strongly for the future, as a 21st Century Council. The Council will continue to secure core community services, but the opportunity now exists for the Council to be more focussed and to include consideration of how those services that the Council may be unable to support in the future may be taken on by local communities, or other organisations as has happened with the Youth Service, community asset transfers and community libraries.
- 9.2 Whilst the Council will need to set out which of its functions and services to local communities will remain core and be fully sustainable, there are also significant opportunities to advance economic development within the County as a means of improving not only economic conditions but also relieving pressure and demand for Council services. These will be fully pursued. The Council will be open to new partnerships with the public, private and third sectors and the community.

10. Key Considerations

- 10.1. The Chief Executive undertook a review of budget and service plans in March. This review assessed the delivery plans and the financial outlook. Proposals were developed in April to ensure the Council has resilient plans to stay within its budget envelope and has a programme of actions to begin to address the financial position for the next two years.
- 10.2. The overall net budget of £150.296 million represents the total amount available for all Council services.
- 10.3. The financial risks are acute if the Council does not stay within its means. This arises from a combination of increased pressure for services and funding reductions that require the delivery of a cumulative total of £53.3 million savings in the five years to 2015/16.
- 10.4. The Chief Executive and senior management teams, working with the Chief Finance Officer, identified a net budget gap totalling £8.4 million, as detailed in Appendix B. It is appropriate that this is addressed quickly in the financial year.
- 10.5. During April directorates worked with cabinet members to identify further reductions in costs to a wide range of services, amounting to at least £8.4 million to meet the position outlined in paragraph 10.4. The approach now follows two parts:
 - The urgent operational revenue issues to reduce costs in-year by £8.4 million; and
 - From May onwards, to re-shape, re-focus and reduce Council services to ensure it operates within its reduced funding limits by focussing on its core business.
- 10.6. The appendices to the report cover the proposals to reduce costs by £8.4 million, the projected position for the general reserve, and the breakdown of the shortfall.
- 10.7. Whilst addressing identified risk in the 2013/14 budgets we must also prepare for the next three year medium term financial plan. Appendix C outlines the key dates. The overall position will be further refreshed after the spending review announcement due on 26 June 2013.
- 10.8. Given the anticipated further Government funding cuts expected to be announced on 26 June difficult decisions are also necessary now in preparation for the likely reductions. The response to the review of our delivery plan means that risk is being minimised going forward into a period of further financial reductions. The approach being taken puts the Council on a stronger footing to meet future reductions in government funding.
- 10.9. The review has formed part of the new financial control process that places an emphasis on controlling expenditure. The overall approach to budget management will be further strengthened from May onwards by a monthly Financial Control session for each directorate. These sessions, to be chaired by the Chief Finance Officer will require the senior team from each directorate to review service expenditure against budget. The sessions will have particular focus on exceptions, variances from planned expenditure and areas where expenditure can be reduced. The sessions will discuss exceptions, the potential for further savings, and identify corrective action where it is required to redress any over-spends.
- 10.10. It is important to acknowledge that there are some beneficial changes to the way the Council thinks about meeting need. Enabling people who use adult social care and children's services to have more choice and control (often known as personalisation) is a key priority for Herefordshire Council. Personalisation is recognised nationally as one of the only ways to respond to increasing demand, within the context of a future of limited public funds whilst

maintaining quality services Personalisation recognises and promotes the potential for people to look after their own health and well-being, collectively and individually.

- 10.11. Personalisation means thinking about public services and social care in a different way, starting with the person, their individual circumstances and the community they live in rather than the services that are available. As we manage within an ever decreasing budget, our priority is to bring together health, social care and broader council functions and practitioners including housing to focus on early intervention and prevention. The starting point will be on encouraging people to draw on assets within the community rather than always looking to organisations to deliver services.
- 10.12. The council employs and manages 1,042 full time equivalents (FTEs) directly. In addition, around 265 full time equivalents are seconded to the Wye Valley and Together NHS Trusts. This report deals with the impact on the workforce in terms of full time equivalent which is a smaller number than the actual number of jobs because two or more part time jobs may be added up to make a single full time equivalent.
- 10.13. Over the past two years the Council has responded to the financial challenges by significantly reducing the number of staff employed by 280 posts. Based upon the savings already planned for 2013/14 a further 100 to 120 full time equivalent reductions were estimated. The additional savings now planned are expected to reduce the number of full time equivalents by around an additional 280. These further reductions will impact during 2013/14 and 2014/15 and will need to be adjusted to reflect any changes identified through the process of stakeholder consultation.
- 10.14. It is important to note that these reductions will be achieved in a number of ways including effective vacancy management, voluntary mutually agreed resignations, potential TUPE transfers and redundancy. The table below shows the service areas where proposed budget reductions will impact on posts.

| Function | Proposed FTE reduction |
|--|-------------------------------|
| Peoples directorate The majority of the proposed reductions will impact staff seconded to Wye valley NHS Trust providing adult social care services with some smaller reductions in commissioning and early help services | 140 |
| Places directorate The proposed reductions will impact on a number of functions including culture, leisure and environmental services | 50 |
| Corporate directorate The proposed reductions will impact in the areas of Information Technology, Communication, HR, Information Management, Research, Equality, Finance, Property Services, Legal, Health & Safety, Emergency Planning, Customer Services and Democratic Services. Hoople Ltd fte reductions are included in these figures. | 100 |

- 10.15. The timetable for handling these reductions will vary depending upon the nature of the function and the extent to which stakeholder consultation is required about the proposed change. Where the proposed change is clear and no external stakeholder consultation required staff consultation can commence immediately after a cabinet decision on the 16th May 2013. Other areas will need longer to develop more detailed proposals and engage in stakeholder

consultation which may of course impact the proposals and therefore change the financial and workforce implications.

10.16. Looking forward as agreed by Cabinet in April 2013 we will be focussing on the future shape of the council and its core functions as we progress through this year, in order that we have a clear plan to sustain good core services through the next two years of £23 million cuts. This may lead to further contraction and job losses in future years.

10.17. Looking forward the five priorities for 2013/14 and the next three years are as follows:

- Delivering a balanced budget and staying within financial resources.
- In parallel with delivering these cuts, the Council needs to re-shape its services and downsize the organisation to reduce costs by a further £23 million in the following two years, and be ready to face the future years' impacts.
- Alongside this, the Council faces the major challenge of raising inadequate performance in Children's Safeguarding, strengthening performance in Adults Services and modernising and transforming the approach to meeting need.
- The Council's main route to direct Whitehall funding of economic growth, is through an effective Local Enterprise Partnership (LEP). Currently steps are being taken to strengthen the LEP.
- Our customers are likely to have an expectation of the Council continuing to provide its current range of services in future. This is now unrealistic and the Council must explain and consult where appropriate on the need for changes as well as the nature of these changes.

11. Community Impact

11.1 The Corporate Plan agreed by Council in November 2012 has two broad priorities: supporting the development of a successful economy and improving quality of life for the people of Herefordshire. The Council remains committed to ensuring public services are prioritised to meet the needs of the most vulnerable. However, the proposals in this report will have an impact on some Council services and this will be assessed as part of the next steps.

11.2 It is also important that the collective impact of budget reductions on parts of the community (for example in market towns or rural areas) is understood. This will be undertaken in conjunction with our partners (for example changes to health care) where appropriate.

12. Equality and Human Rights

12.1 Reducing inequalities is a stated outcome within the corporate plan and the Council's budget and charging principles reflect the need for fairness and support the targeting of resources towards those in most need. Equality impact assessments will be undertaken as an integral part of the planning and implementation of any proposals in this report which require a change to the service being delivered.

12.2 In addition, officers will further assess those elements which are perceived as engaging the Council's duties under the Equality Act 2010 and report further as necessary.

13. Financial Implications

13.1 The financial implications of the report are covered within the contents.

14. Legal Implications

- 14.1 The Council is required to ensure it stays within its overall resources. This includes the overall reserves position and it is important that steps are taken so that the reserves are sufficient to meet unexpected service expenditure requirements.
- 14.2 The overall net budget set by the Council in February remains unchanged. The constitution makes provision for in-year virement of resources between budget heads to be made under the authorisation of the Chief Finance Officer and/or Cabinet Member.
- 14.3 Where appropriate relevant consultation will take place before specific decisions are taken and acted upon.
- 14.4 The report recognises that equality impact assessments and further consultation with stakeholders (and staff) will need to be undertaken before any final decisions on service changes or service reductions are made. It is important that this further work is undertaken appropriately in order both to inform the final decision making process and to mitigate the risk of legal challenge to individual service changes, or the wider change programme. In particular, consultees must be given sufficient information and adequate time to allow them to reach an informed view on the proposals; and all decision makers must have sufficient time to consider the consultation responses thoroughly before any final decisions on service changes are taken.
- 14.5 The impact assessments and consultation responses need to be considered from a corporate (whole organisation) perspective, to ensure that all groups of stakeholders are treated fairly. Depending upon the outcome of the consultation process, it may be necessary to put forward alternative proposals for savings, which may, in turn, require further consultation with those affected.

15. Risk Management

- 15.1 The reduced funding envelope for local government has created additional risks to those normally associated with budget setting.
- 15.2 Unless Directorates' action plans for delivery of savings are regularly managed and overseen corporately there is a risk that the totality of the risks (financial, legal, reputational, safety) to the organisation are not understood by decision makers nor mitigated against.
- 15.3 The requirement to ensure compliance and to avoid legal challenge may lead to delay and slippage to the financial savings being achieved and will require the need for contingency plans to be made

16. Consultees

- 16.1 Extensive engagement with residents and others took place during 2012/13 as part of the approval process for the Corporate Plan and the Budget 2013/14. The 'Your Community, Your Say' engagement process included the Quality of Life survey; locality based engagement events during Autumn 2012; and a subsequent consultation in January 2103 regarding particular proposals to reduce service delivery in some areas.
- 16.2 The consultation process was set within the context of significant financial cuts resulting in major changes in the way that public services are commissioned and delivered. The results from the consultation were reported to Cabinet and Council before decisions were made. The detailed consultation responses are now being used by officers as part of the implementation of the budget proposals.

16.3 This evidence base will also be used to assess the impact of the proposals in this report, **but** this will be supplemented, where required and appropriate, by additional consultation with service users and other affected residents and groups, to ensure that the full potential impact is assessed and taken into account before final decisions are made or implemented. We will also continue to engage with residents, community groups and partners as part of the further work on reshaping the Council.

16.4 Subject, to Cabinet's decision, consultation will also be undertaken with staff as appropriate, as outlined above.

17. Appendices

17.1 Appendix A – Council's Reserves

17.2 Appendix B – Outcome of the Chief Executive's Review of 2013/14 service delivery plans

17.3 Appendix C - List of service reductions and cost savings

17.4 Appendix D – Budget process timeline for 2014/15

18. Background Papers

18.1 Budget 2013/14 and Medium Term Financial Strategy: Council 18 February 2013.