

Report of the Deputy Chief Executive

Report to: Executive Board

Date: 27th July 2016

Subject: Compassionate City with a Strong Economy: Financial Strategy

Are specific electoral Wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, name(s) of Ward(s):		
Are there implications for equality and diversity and cohesion and integration?	<input checked="" type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, Access to Information Procedure Rule number		

Summary of main issues

- Between the 2010/11 and 2016/17 budgets, Leeds' core funding from Government has reduced by around £214m and in addition the council has faced significant demand-led cost pressures. This means that the council will have had to deliver reductions in expenditure and increases in income totalling some £400m by March 2017. To date, the council has responded successfully to the challenge and, whilst this has not been easy, has marginally underspent in every year since 2010 through a combination of stimulating good economic growth and creatively managing demand for services alongside a programme of more traditional efficiencies.
- However, as signposted in the 2016/17 Best Council Plan and 2016/17 Budget reports to Council in February 2016, it will become increasingly difficult over the coming years to identify further financial savings without major changes in what the council does and how it does it. This will have significant implications for the services provided directly and commissioned by the local authority, impacting upon staff, partners and service users. Those services that are no longer affordable and a lesser priority than others will be delivered differently or, in some cases, stopped. This will be achieved through a proactive process of policy and service reviews across the council's functions and ongoing consultation and engagement. Throughout, there will be a continued focus on delivering the Best Council Plan ambitions aimed at tackling poverty and reducing the inequalities that persist across Leeds in terms of poverty and deprivation, health and educational attainment, many of these being compounded by welfare changes and wider austerity which have impacted disproportionately on those most disadvantaged in society.
- Government has already provided indicative funding levels for 2017/18 through to 2019/20 which will see the council's Settlement Funding Assessment - the core

funding received from Government - reduced by a further £53m of which £25m will be cut in 2017/18. Taking this into consideration with increased demand pressures, the estimated funding gap for the period 2017/18 to 2019/20 is substantial: around £110m of which £81m is front-loaded into 2017/18. This estimated funding gap recognises the Government's assessment of Core Spending Power for Leeds and therefore assumes for planning purposes Council Tax increases of 1.99% and Adult Social Care precept increases of 2% each year from 2017/18 to 2019/20.

4. As part of Government's 2016/17 financial settlement, councils have been offered a choice in taking up a four-year funding settlement for the period 2016/17 to 2019/20. Government states that a multi-year settlement will give greater funding certainty and stability to enable more proactive and longer-term planning of local service delivery. All local authorities now need to decide whether to accept the Government's four-year offer by the 14th October 2016 which will require publishing an updated medium-term financial strategy / 'efficiency plan'.
5. This report sets out an approach and timetable for updating Leeds' medium-term financial strategy, taking into account the implications of the 4-year funding offer and balancing the potential increased income from local taxation and new/increased fees and charges against the impact of increasing demand and cost pressures. It considers the actions and decisions that will need to be taken to deliver the Best Council Plan outcomes and priorities while staying within our available financial resources, emphasising the requirement for early action to increase income and reduce spend to address the significant pressures on the 2017/18 budget. The report also considers the consequent implications for our workforce.
6. The intention is to present the updated financial strategy to the September meeting of the Executive Board to inform the Board's decision on whether or not to accept the four-year funding settlement. This will then form the framework for the 2017/18 budget. Today's report is being presented well in advance of December's initial 2017/18 budget proposals to give the Board greater opportunity to consider the range of issues.

Recommendations

7. Executive Board is recommended to:
 - i) Note the medium-term financial challenge and Government's proposed four-year funding settlement for those local authorities choosing to accept this offer. Also to note that the Deputy Chief Executive will present an updated medium-term financial strategy at the Board's September meeting as part of the decision on whether or not to accept this four-year settlement.
 - ii) Note the service and policy review work underway aimed at continuing to deliver the Best Council Plan ambition of tackling poverty and inequalities, whilst at the same time addressing the challenges of increasing demand, reducing resources and the particular pressures on the council's 2017/18 budget.
 - iii) Express thanks to Scrutiny Board (Strategy & Resources) for its work on fees and charges and note the progress made against the recommendations approved by the Executive Board in February 2016.
 - iv) Note the potential implications for the council's workforce set out in this report and the indicative timescales set out in Appendix 2.

1. Purpose of this report

- 1.1 The purpose of this report is to update the Executive Board on the development of the council's medium-term financial strategy in the context of the Government's spending plans and local service and financial challenges. It highlights the scale of the challenge and the potential impact in advance of a more detailed report to this Board in September.
- 1.2 As requested by the Board at its February 2016 meeting, this report also provides a progress update on Scrutiny (Strategy & Resources) Board's recommendations on fees and charges.

2. Background information

2.1 2015 Spending Review and Autumn Statement 2015

- 2.1.1 On 25th November 2015, the Chancellor announced the first combined Spending Review and Autumn Statement since 2007. Compared to the Summer Budget 2015, the Office for Budget Responsibility forecast higher tax receipts and lower debt interest, with a £27 billion improvement in the public finances over the Spending Review period. The Spending Review set out firm plans for spending on public services and capital investment by all central government departments through to 2019/20.
- 2.1.2 Details of the 2015 Spending Review and Autumn Statement were included in the Initial Budget report to Executive Board in December 2015. The main points specific for local government are recapped below:
 - Significant reductions to the central government grant to local authorities.
 - Reductions in local authority public health spending with average annual real-terms savings of 3.9% over the next 5 years which will manifest in reductions to the public health grant to local authorities.
 - Introduction of a new power for local authorities with social care responsibilities to increase council tax by an Adult Social Care precept of up to and including 2% per year. The money raised will have to be spent exclusively on adult social care. Nationally, if all local authorities use this power to its maximum effect, it could raise nearly £2 billion a year by 2019/20. This would be equivalent to over £20m per year for Leeds by 2019/20. Effectively, the introduction of this new precept represents a shift in the burden for funding the increasing costs of Adult Social Care from national to local taxpayers. The redistribution effect should also be noted in that the precept will be most beneficial to those local authorities with the largest council tax bases.
 - The Spending Review re-affirmed Government's commitment to join up health and social care. Government will continue the Better Care Fund, maintaining the NHS's mandated contribution in real terms over the Parliament. From 2017, central government will make funding available to local government, worth £1.5 billion by 2019/20, to be included in the Better Care Fund.
 - The Spending Review 2015 indicated that the Government will look at reforming the New Homes Bonus, including means of sharpening the incentive to reward communities for additional homes and reducing the length of payments (the period of time over which Government matches the Council Tax raised on each new home) from 6 years to 4 years. Government's preferred

option is for savings of at least £800 million with the potential grant reduction for Leeds then being in the region of £6m.

- Confirmation of the previous announcement of the proposal to end national uniform business rates with the introduction of 100% retention of business rates for local government and the phasing out of the Revenue Support Grant as well as introduction of new responsibilities giving councils the power to cut business rates to boost growth, and empowering elected city-wide mayors.
- Allowing local authorities to be able to use 100% of receipts from asset sales on the revenue costs of reform projects.
- Capping the amount of rent that Housing Benefit will cover in the social sector to the relevant Local Housing Allowance.
- Reducing the Education Services Grant by £600m, or 73%. For Leeds, the 2015/16 allocation was £9.2m and so applying the same 73%, the reduction would be in the region of £6.7m per year. Clarity is needed around the impact and timing of this significant reduction with consultation in 2016 and the changes effective from 2017/18.
- Introduce a new national funding formula for schools to begin to be introduced from April 2017.
- Redistribution: Government to consult on changes to the local government finance system to rebalance support including to those authorities with social care responsibilities by reassessing needs and taking into account resources available to councils, including council tax and business rates.

2.2 Finance Settlement and the Budget Gap

2.2.1 The final Local Government Finance Settlement for 2016/17 was announced on 8th February 2016 ahead of a formal motion and parliamentary debate two days later. Through the settlement the Government introduced a new measure of 'Core Spending Power' which includes the Settlement Funding Assessment, Council Tax income, the improved Better Care Fund (from 2017/18) as well as the New Homes Bonus income. The details of the Leeds Core Spending Power per the settlement are provided in table 1 below:

Table 1: Settlement Funding Assessment – 2015/16 to 2019/20

	Actual 2015/16 £m	Actual 2016/17 £m	Indicative 2017/18 £m	Indicative 2018/19 £m	Indicative 2019/20 £m
Settlement Funding Assessment	272.2	238.0	212.9	198.7	184.8
Council Tax					
Council Tax requirement excluding parish precepts (including base growth and levels increasing by CPI)	249.9	261.4	274.7	289.1	304.4
Additional 2% Adult Social Care precept	-	5.1	10.5	16.4	22.8
Improved Better Care Fund	-	-	1.5	12.6	22.7
New Homes Bonus	14.1	17.5	17.6	11.0	10.6
Leeds Core Spending Power	536.2	516.9	506.7	511.4	522.5
Year-on-year change: (reduction)/increase	-	(19.3)	(10.2)	4.7	11.1

Change over the Spending Review Period: (reduction)/increase	(13.7)
Change over the Spending Review Period: (reduction)/increase	(2.6%)

2.2.2 The Government's indicative assessment of the Leeds Core Spending Power shows cash reductions in 2016/17 and 2017/18 with cash increases in the following 2 years. Overall, the table shows a cash reduction of £13.7m, or 2.6% over the four-year period to 2019/20. It should be stressed that the figures in table 1 are Government's assumptions in respect of the growth in the council tax base, an annual increase in Council Tax, additional income from any Adult Social Care precept and the New Homes bonus income generated through housing growth and so are not without risk. In addition, the assessment of Core Spending Power makes no recognition of increased costs through inflation and demand, nor do they factor in the cuts to other specific grant funding such as the Public Health grant and the Education Services Grant described in section 2.1.2 above.

2.2.3 In terms of the indicative Settlement Funding Assessment from 2016/17 through to 2019/20, table 2 below provides the breakdown between the Revenue Support Grant and the Business Rates Baseline funding and indicates a 78% reduction in Revenue Support Grant by 2019/20.

Table 2: Settlement Funding Assessment 2015/16 to 2019/20 split by Revenue Support Grant and Business Rates baseline funding

	Adjusted 2015/16 £m	Final 2016/17 £m	Indicative 2017/18 £m	Indicative 2018/19 £m	Indicative 2019/20 £m
Revenue Support Grant	128.4	93.1	65.0	46.5	27.8
Business Rates Baseline Funding	143.8	145.0	147.9	152.2	157.1
Settlement Funding Assessment	272.2	238.0	212.9	198.7	184.8
In-year reduction	-	(34.2)	(25.2)	(14.2)	(13.9)
Cumulative reduction	-	(34.2)	(59.3)	(73.5)	(87.3)

2.2.4 In addition to the £34.2m reduction to the council's Settlement Funding Assessment in 2016/17, Government has indicated a further reduction of £53m between 2017/18 and 2019/20 of which over £25.2m is front-loaded to the 2017/18 financial year.

2.2.5 Compounding the reductions in government funding, there are a number of other cost and funding pressures that need to be taken into account as part of updating the 2017/18 to 2019/20 financial strategy. These include:

- The cost of inflation;
- The financial impact of demographic changes and increasing demands for services, especially in Adult Social Care and Children's Services;
- The continuing impact of implementing the national living wage for commissioned services;
- Rising pension costs;
- Reductions to specific grants, for example, New Homes Bonus, Public Health and the Education Services Grant, as noted above;
- The new apprenticeship levy, to be implemented from April 2017;

- The cost of debt and the Minimum Revenue Provision; and
- Other cost pressures and non-recurrent funding/savings.

2.2.6 Table 3 below sets out the council's estimated budget gap over the next 3 years. It shows that the council's estimated headline funding gap for the period 2017/18 to 2019/20 is substantial: around £110m of which £81m is front-loaded into 2017/18. This estimate recognises the Government's assessment of Core Spending Power for Leeds through to 2019/20 at table 1 and for planning purposes therefore assumes annual rises in the Council Tax and Adult Social Care precept of 1.99% and 2% respectively. The report in September 2016 to update the medium-term financial strategy will provide further detail of the assumptions which underpin these estimates.

Table 3: Estimated Budget Pressures – 2017/18 to 2019/20

	In-year			Total
	2017/18	2018/19	2019/20	
	Decrease/(increase)			
	£m	£m	£m	£m
Settlement Funding Assessment	25.2	14.2	13.8	53.2
Estimated changes in local funding	(23.7)	(21.4)	(18.0)	(63.1)
Other Funding Changes	29.1	(2.4)	(6.4)	20.3
Decrease/(increase) in funding	30.6	(9.6)	(10.6)	10.4
Inflation	8.3	8.4	8.5	25.2
Pensions - actuarial review	1.5			1.5
Apprentice Levy	1.6	0.0	0.0	1.6
National Living Wage	4.7	4.6	4.6	13.9
Demography & demand	9.0	5.9	4.9	19.8
Debt & Minimum Revenue Provision	20.9	6.2	3.3	30.3
Other cost changes & full year effects	4.3	0.9	1.6	6.8
Estimated increase in costs	50.3	26.0	22.9	99.1
Estimated Budget Gap	80.8	16.4	12.3	109.5

2.3 Four-year funding settlement

- 2.3.1 As part of the 2016/17 financial settlement, Government set out an offer of a four-year funding settlement for the period 2016/17 to 2019/20 to any council that wishes to take it up. Government states that as part of the move to a more self-sufficient local government, these multi-year settlements can provide the funding certainty and stability to enable more proactive planning of service delivery and to support strategic collaboration with local partners; local authorities should also use their multi-year settlements to strengthen financial management and efficiency.
- 2.3.2 Government is making a commitment to provide central funding allocations for each year of the Spending Review period, should councils choose to accept the offer and on the proviso that councils have published an efficiency plan. The deadline for local authorities to choose whether or not to accept the funding offer and, if they are accepting, to publish a medium-term financial strategy/efficiency plan, is the 14th October 2016.

- 2.3.3 The intention is therefore to present the updated medium-term financial strategy for approval to the September meeting of the Executive Board as part of the decision on whether or not to accept the four-year funding settlement. It should be noted that the approval of the medium term financial strategy is not part of the budget and policy framework although it will form the basis for setting the 2017/18 budget. The initial 2017/18 budget proposals will be brought as usual to the Executive Board in December 2016 prior to consultation, recommendation by Executive Board and then approval by Full Council in February 2017.
- 2.3.4 In preparation, the 'main issues' section below describes an approach for updating the medium-term financial strategy and considers the actions and decisions required to continue delivering the Best Council Plan ambitions and priorities while addressing the challenges of increasing demand, reducing resources and the particular pressures on the council's 2017/18 budget.

3. Main Issues

3.1 Policy & Service Reviews

- 3.1.1 In February 2016, Full Council approved the 2016/17 Best Council Plan and the supporting Budget. The Best Council Plan is the council's strategic planning document and sets the context and policy direction against which the budget and medium-term financial strategy are developed. The policy direction is clearly explained in the 2016/17 Best Council Plan: that the council's 'Best City' and 'Best Council' ambitions remain - articulated around Leeds having a strong economy and being a compassionate city and the council being an efficient and enterprising organisation – with a focus on reducing poverty and tackling the range of interlinked inequalities that persist across the city.
- 3.1.2 The reports that accompanied the proposals to Executive Board and then Full Council on the 2016/17 Best Council Plan and Budget identified that the future financial climate for local government presented significant risks and challenges to the council's priorities and ambitions and that, whilst every effort would be made to protect the front-line delivery of services, changes to *what* the council does and *how* it does it would be unavoidable.
- 3.1.3 To help identify options for what those changes might be, from April 2016 an ongoing process of review has been underway across a range of services and policy areas with the active involvement of the Best Council Leadership Team (the c. 50 most senior managers) and service managers throughout the organisation. With the Best Council Plan focus on tackling inequalities being central to any proposals, the reviews will identify possible savings / income generation opportunities, decision-making routes for any changes to be implemented, initial identification of possible third sector and equality impacts and a high-level risk assessment. Of particular note are the two key cross-cutting reviews on Support Services and Locality Working / Leadership (both incorporating reviews of JNC – senior management – staff) and reviews assessing options around income and trading.
- 3.1.4 The latter follows on from Executive Board's approval at its February 2016 meeting of the recommendations in the report on fees and charges from Scrutiny Board (Strategy & Resources). These included agreement that all fees would be reviewed annually by at least the rate of inflation, that officers should benchmark their charging frameworks each year and that full-cost recovery in line with CIPFA guidance should apply as part of the annual budget setting process. As requested at this Board's

February meeting, Appendix 1 provides an update against the full set of recommendations.

- 3.1.5 The service and policy reviews have been – and will continue to be – updated as part of an iterative approach to developing the council's strategic plan and aligned medium-term financial strategy and annual budgets. All services are within scope though the council remains committed to protecting front-line services as far as possible – especially those that provide support to the most vulnerable.
- 3.1.6 Whilst no decisions have been taken yet to implement the policy and service reviews, it is clear from the scale of the financial challenge, and particularly the front-loading impact into 2017/18, that the impact on council services and functions will be significant. The potential consequential impact on the staffing workforce is discussed in section 3.2 below, and the impact on equalities, partners and outcomes will be fully considered as part of the decision-making processes.

3.2 Workforce Implications

- 3.2.1 Following the 2015 Comprehensive Spending Review the council re-issued a Section 188 notice (notice to collectively consult to avoid redundancies issued under s.188 TULRCA 1992) stating that it is anticipated the council will need to downsize by 1,000 – 2,000 FTEs by the end of March 2020. A broad estimate is that the required reduction in staff numbers will be 800 FTEs during 2016/17 with a further 500 FTE reduction during 2017/18. The council will continue to seek ways of avoiding compulsory redundancies - for example through the authority's Early Leavers Initiative (ELI) scheme and normal staff turnover - however, it is unlikely that this will be sufficient.
- 3.2.2 The process for making redundancies is clearly set out in the council's Managing Staffing Reductions (MSR) policy and is based on the assumption that the requirement for activities and / or work has either lessened or stopped.
- 3.2.3 There are specific timescales set out in law for collective consultation to avoid redundancies which must be adhered to in order to avoid the very real risk of legal challenge around failing to meet minimum consultation requirements, incorrect selection for redundancy and/or failure to give adequate notice of termination due to redundancy. An indicative timeline is provided at Appendix 2 to this report. From this, it can be seen that the council will need to embark on this programme urgently in order to deliver the required reduction in the workforce for 2016/17 through fair and transparent consultation and selection processes.

3.3 European Union

- 3.3.1 At the time of writing, the country faces a period of political, fiscal and economic uncertainty following the results of June's EU referendum with potentially wide-ranging implications/uncertainties in terms of:
- An uncertain economic outlook potentially impacting on levels of trade and investment;
 - Potentially rising inflation;
 - Interest rate volatility impacting on the council's debt costs;
 - Impact on the labour market, both around make-up and availability;
 - The UK's legislative and regulatory framework will require in-depth review and revision; and

- At the time of writing, there is currently a degree of political uncertainty at central government level.

3.3.2 The effects for local government and local communities will emerge over the coming months and years. The council remains committed to working with partners across all sectors to deliver our Best City / Best Council ambition whilst anticipating and responding to the economic, political and social challenges and opportunities that emerge with our service and financial strategies continually kept under review.

3.4 Timetable

3.4.1 The specific decisions around the service and policy change proposals will be taken in line with the council's decision-making framework over the coming months as required and factored into the 2017/18 Best Council Plan and Budget proposals. Key dates and activities are shown below:

Activities	Description	Timescales
Efficiency plan	Development	Jul – Sep 2016
	Executive Board – Draft plan	21 Sep 2016
	Deadline for response to Government on 4-year financial settlement & link to published efficiency plan	14 Oct 2016
2017/18 Best Council Plan & Budget	Executive Board – Initial proposals	14 Dec 2016
	Executive Board – Final proposals	8 Feb 2017
	Full Council – Executive Board recommendations	22 Feb 2017
Workforce	Staff & trade union consultation, HR processes (see Appendix 2)	Jul 2016 – Mar 2017(indicative)
Service & Policy reviews	Service reviews revised, new review areas / proposals brought forwards, medium-term financial strategy updated	Jul 2016 – Mar 2017 & beyond

4. Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 Embracing the concept of civic enterprise set out in the Leeds-led '*Commission on the Future of Local Government*', it is clear that the council needs to work differently in the future. We must move away from a heavily paternalistic role where we largely provide services, towards a greater civic leadership role where we work with people rather than doing things to or for them unless they need this.
- 4.1.2 To achieve changes on the scale proposed will require city-wide and local conversations about the council and its future role. These conversations need to go beyond the traditional consultation methods used for budget setting or changes to services. We will undertake significant and ongoing engagement with staff across the council, elected members, the public and partners on the future priorities, shape and funding model of the council. At the core of the engagement will be discussions that redefine the social contract – the relationship between public services and

citizens where there is a balance between rights and responsibilities. These conversations will focus on the likely future extent of council services and what responsibilities partners and the public should take on to look after themselves, others and the places they live and work. If more people are able to do more themselves, the council and its partners can more effectively concentrate and prioritise services and resources to those communities and areas most in need.

- 4.1.3 Where there are specific and imminent changes proposed to council services, we will use normal business processes to engage users and staff to inform decision-making.
- 4.1.4 When considering any workforce change the trade unions should be meaningfully engaged at the earliest opportunity. The council re-issued the Section 188 notice following the Comprehensive Spending Review last year, which triggered the consultation process around the mitigation of redundancies and there have been regular meetings with trade union colleagues about how we can work together to meet our financial challenges. Now the financial position has become clearer, further discussions have taken place with the trade unions, most recently at the council's Corporate Joint Consultative Committee on 24th May 2016 where the anticipated staffing reductions were outlined. More focused consultation will need to take place once the proposals regarding workforce changes become clearer and more defined.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 The council continues to have a clear approach to embedding equality in all aspects of its work and recognises the lead role we have in the city to promote equality and diversity. This includes putting equality into practice, taking into account legislative requirements, the changing landscape in which we work and the current and future financial challenges that the city faces.
- 4.2.2 As an example of the commitment to equality, scrutiny will again play a strong role in challenging and ensuring equality is considered appropriately within the decision-making processes.
- 4.2.3 The proposals within this report have been screened for relevance to equality, diversity, cohesion and integration and a full strategic analysis and assessment will be undertaken on the Financial Strategy 2017/18 - 2019/20 and associated service/policy review programme.
- 4.2.4 Specific equality impact assessments will also be undertaken on the implementation of all budget decisions as they are considered during the decision-making processes in 2016/17. As part of this, the proposed revenue budget for 2017/18 will be subject to Equality Impact Assessments where appropriate with details included in the 2017/18 budget proposal reports to this Board and subsequently Full Council.

4.3 Council Policies and Best Council Plan

- 4.3.1 The approach and timetable set out in this report for updating Leeds' medium-term financial strategy, developing the 2017/18 budget and the actions required to deliver the Best Council plan outcomes and priorities within tightening financial resources are in line with the council's budget and policy framework. They will also inform the development of the 2017/18 Best Council Plan.

4.4 Resources and Value for Money

- 4.4.1 All financial and workforce implications are considered in the main body of the report.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 There are no legal implications arising from this report. Any proposals resulting from the ongoing service / policy reviews will be subject to specific decision-making processes in which the legal implications, access to information and call-in will be considered in accordance with the council's decision-making framework. This includes compliance with the legal requirements around managing staffing reductions.

4.6 Risk Management

- 4.6.1 Making changes to council services carries a number of significant risks that will need to be carefully managed in line with the council's Risk Management Policy. However, failure to make these changes will require the council to consider even more difficult decisions that will have a far greater impact upon front-line services, including those that support the most vulnerable, and thus our Best Council Plan ambition to tackle poverty and inequalities.
- 4.6.2 Key risks include:
- *Risks to people:*
 - Failure to consider the potential cumulative impact of proposals on specific population groups;
 - Failure to identify and mitigate unintended consequences;
 - Failure to manage demand;
 - Failure to invest in early intervention / preventative measures;
 - Best Council Plan outcomes and ambitions not achieved, inequalities worsen;
 - *Financial risks:*
 - Economic uncertainty related to the result of the EU referendum impacts on local government and our partners;
 - Uncertainties around the levels of funding, other sources of income, costs and demand;
 - Delays in the implementation of any proposals impacting upon delivery of the anticipated financial savings/additional income;
 - Actual financial savings/additional income delivered are less than those required;
 - Failure to deliver the 2016/17 budget, increasing the 2017/18 pressures;
 - *Workforce risks:*
 - Process for managing staff reductions (and associated development of ELI offer) unclear, insufficiently communicated and/or delayed, damaging staff morale and impacting upon financial savings required – key source of delay may be insufficient capacity across the organisation to deliver the required reductions within the required timescales;
 - Council no longer seen as an employer of choice;
 - *Legal / regulatory breach & resulting challenge:*
 - Council's statutory / regulatory duties not met;
 - Failure to ensure due regard for consultation, equality and diversity; and
 - Failure to comply with legal requirements for managing staffing reductions.

- 4.6.3 A full risk assessment will be undertaken of the council's financial plans as part of the normal budget process and a full analysis of budget risks will continue to be maintained, subject to monthly review as part of the in-year monitoring and management of the budget. Any significant and new risks/budget variations will continue to be included in the in-year financial reports brought to the Executive Board.
- 4.6.4 In addition, risks identified in relation to specific proposals and their management will be reported to relevant member and officer decision-makers as required.

5. Conclusions

- 5.1 The council is facing continued financial pressures through a combination of reduced funding, rising costs and growing demand. The scale of the funding gap between 2017/18 and 2019/20 is projected to be in the order of £110m, £81m of this front-loaded to 2017/18. In response, the council will need to make significant changes in the way it works and what it does, informed by ongoing engagement with staff, elected members, the public and partners on the future priorities, shape and funding model of the council.
- 5.2 Those services that are no longer affordable and a lesser priority than others will be delivered differently, reduced or, in some cases, stopped. This will have implications for the council's service users, partners and workforce and so, although the council will continue to seek ways of avoiding compulsory redundancies, it is unlikely that the level of savings required can be achieved without this. Throughout any programme of redundancies, the council's Managing Staffing Reductions Policy will be adhered to.
- 5.3 A planned and iterative approach is being taken to review a range of service and policy areas to identify potential savings and income generation opportunities. These will inform the development of the council's medium-term financial strategy and response to Government this autumn on whether or not to accept its 4-year financial settlement.
- 5.4 While all services are within scope, the council remains committed to protecting front-line services as far as possible – especially those that provide support to the most vulnerable in line with our stated Best Council Plan ambitions to tackle poverty and reduce inequalities.

6. Recommendations

- 6.1 Executive Board is recommended to:
- i) Note the medium-term financial challenge and Government's proposed four-year funding settlement for those local authorities choosing to accept this offer. Also to note that the Deputy Chief Executive will present an updated medium-term financial strategy at the Board's September meeting as part of the decision on whether or not to accept this four-year settlement.
 - ii) Note the service and policy review work underway aimed at continuing to deliver the Best Council Plan ambition of tackling poverty and inequalities, whilst at the same time addressing the challenges of increasing demand, reducing resources and the particular pressures on the council's 2017/18 budget.

- iii) Express thanks to Scrutiny Board (Strategy & Resources) for its work on fees and charges and note the progress made against the recommendations approved by the Executive Board in February 2016.
- iv) Note the potential implications for the council's workforce set out in this report and the indicative timescales set out in Appendix 2.

7. Background Documents¹

- 7.1 There are no background documents relating to this report.

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Appendix 1: Fees & Charges Update to Executive Board 27/7/16

On 10th Feb 2016, Executive Board received a report on Fees and Charges from Scrutiny Board (Strategy & Resources). Executive Board agreed the recommendations and tasked officers with reporting back as appropriate. The following paragraphs provide an update on the agreed recommendations.

- **Recommendation 1: That Executive Board agrees the proposed changes to the Fees and Charges Policy and Best Practice Guidance.**

Update: The policy has been redrafted and published on Insite. The new document has also been promoted to increase awareness and understanding.

- **Recommendation 2: That all fees are reviewed annually and the normal expectation is that they would increase by at least the rate of inflation and be implemented on 1st January.**

Update: Arrangements are in place to ensure that where desirable fees are increased by at least inflation on 1st January each year. Although this change was only agreed in February 2016 many of our fees have been increased by 3% for 2016. The next fees increase will take place on or before 1st January 2017.

- **Recommendation 3: That directorates review and look at refreshing policies or charging frameworks on an annual basis.**

Update: As part of the Fees and Charges Best Practice Guidance officers are asked to benchmark against other comparable authorities. Evidence over the last three years suggests that we are comparing better with others and the gap is narrowing.

- **Recommendation 4: That directorates ensure that all possible costs in line with CIPFA's service Reporting Code of Practice for local Authorities are accounted for in relation to those services where legislation states that fees can only recover costs.**

Update: There is currently an inconsistent approach to calculating costs and setting fees and charges for services. To address this Executive Board agreed that CIPFA's rules on calculating 'full cost' should be adopted. This policy will be introduced during the 2017/18 budget setting process and will mean that elected members will see the true level of subsidy for each service allowing comparisons between services to be made. Members will then be able to make informed decisions about the level of subsidy for each service. To facilitate this happening directorates will produce true cost statements for each charged for service as part of the 2017/18 budget preparation process.

- **Recommendation 5: That the Executive Board actively considers the list of potential new fee areas drawn up by this Scrutiny Board and where appropriate request that officers undertake a full cost benefit analysis.**

Update: Officers have produced a briefing document for each one of the potential new fee areas drawn up by Strategy and Resources Scrutiny Board. These have all been considered by CLT and Cabinet and the vast majority of them are now being prepared for more formal consideration by Members as part of the 2017/18 budget preparations.

- **Recommendation 6:** That in relation to non-residential Adult Social care Services, the Executive Board considers either increasing or removing the current cap on the amount anyone pays for their services per week.

Update: Executive Board at its 10th February meeting agreed to raise the maximum amount anyone pays for their services per week to the equivalent of 85% of the cost of a typical older person's residential placement i.e. £375 per week at current prices.

- **Recommendation 7:** That Executive Board looks at providing a budget to fund work/resources to generate income.

Update: Resources were provided in the 2016/17 budget to fund income generation work. To date two seminars have been held on trading and income generation and there is also an expectation that as 2017/18 budget options are further developed this resource may be used to work up income generation ideas.

Appendix 2: Managing Staff Reductions Policy Indicative Timeline

ACTIVITY	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10
CONSULTATION PERIOD (Note 1)										
Consultation (Note 2)										
Apply selection criteria										
Individual consultation period										
Carry out equality impact assessment on proposals										
Redundancy meeting ('hearing') (Note 3)										
Notice period (+ 1 month) (Note 4)										
Notice period (+2 months) (Note 4)										
Appeals										
Redeployment options, trial periods										

Notes

1. Minimum consultation period needs to be at least 30 days (if 20-99 employees redundant within 90 days), or 45 days (if more than 100 employees affected).
2. Reasons for reductions; consider alternatives to redundancy; proposed selection criteria etc.
3. Consultation events, individual consultation meetings and redundancy meetings ('hearings') will need to be phased as HR/Trade Union availability to support these meetings needs to be scheduled over an appropriate period.
4. The notice period enhancement agreed in the December 2014 collective agreement was to reduce to + 1 month and we have met the criteria to do this; however, no decision to move to this has been taken, so the timeline above allows for 3+1 month and 3+2 months.