

REPORT FOR DECISION



REPORT TO:	CABINET
DATE:	18 DECEMBER 2013
SUBJECT:	MEDIUM-TERM FINANCIAL STRATEGY
REPORT FROM:	DEPUTY LEADER/ CABINET MEMBER FOR FINANCE & CORPORATE AFFAIRS
CONTACT OFFICER:	MIKE OWEN, EXECUTIVE DIRECTOR OF RESOURCES STEPHEN KENYON, ASSISTANT DIRECTOR OF RESOURCES (FINANCE & EFFICIENCY)
TYPE OF DECISION:	KEY
FREEDOM OF INFORMATION/STATUS:	The report is for publication.
SUMMARY:	<p>The report presents Members with a draft medium Term Financial Strategy for their consideration. The draft Strategy covers the years 2015/16 to 2016/17 and sets out the assumptions underpinning the draft budget forecasts for those years.</p> <p>This covering report outlines, at a strategic level, the challenges facing the Council in the light of the further and significant Government funding reductions announced as part of the 2013 Spending Review and suggests an initial strategic response to the position.</p>
OPTIONS & RECOMMENDED OPTION	Option 1 - to approve the Medium Term Financial Strategy Option 2 - to reject or amend the draft Strategy

	Option 1 is the recommended option in order to ensure that the Council has a clear budgetary framework to take it through the challenges ahead.
IMPLICATIONS:	
Corporate Aims/Policy Framework:	Do the proposals accord with the Policy Framework? Yes
Statement by the S151 Officer: Financial Implications and Risk Considerations:	The draft MTFS does not require any additional resources itself. However it will play a key role in directing the work required to produce a balanced 3 year budget for the Council.
Statement by Executive Director of Resources:	Wider resource issues will depend on final budget allocations made by Members.
Equality/Diversity implications:	A comprehensive Equality Impact Assessment has been completed.
Considered by Monitoring Officer:	Yes
Wards Affected:	All
Scrutiny Interest:	Overview and Scrutiny Committee

TRACKING/PROCESS

DIRECTOR: Mike Owen

Chief Executive/ Senior Leadership Team	Cabinet Member/Chair	Ward Members	Partners
Yes	Yes		
Scrutiny Committee	Committee	Council	
14/1/14	18/12/13		

1.0 INTRODUCTION

- 1.1 The draft Medium term Financial Strategy (MTFS) attached to this report sets out the background to the Council's funding position for the coming two years (2015/16 and 2016/17), the assumptions made in preparing the budget forecast set out in the Strategy, and the Council's proposed approach to developing a significant cuts programme in order to deliver a sustainable balanced budget going forward.
- 1.2 Finance is central to all activities of the Council; virtually everything the Council does has a financial implication; whether it involves incurring costs, or generating income. Also the way money is spent influences the way services are delivered, the extent of the services we can deliver, the quality of our services and also how effectively the Council's vision can be fulfilled and the wishes of our residents met. For the purpose of this report the finances which are affected mostly are the net budget of £140m and what is termed the 'controllable' budget valued at £100m (which excludes items such as past pension costs, levies, debt charges etc.)
- 1.3 Local Government is experiencing unprecedented challenges. Ever increasing demands are being placed on services as a result of the economic environment, statutory duties, demographic changes and residents' expectations and this is happening at the same time as Government funding is being considerably reduced.
- 1.4 Analysis of all public spending cuts shows that over the past 4 years local government has borne the brunt of Government spending cuts and in Bury the Council has seen its Government funding cut by over 30%. These cuts, together with rising costs and more demand for our services, means that the Council's budget has been cut by £38 million since 2010.
- 1.5 Based on the assumptions set out in the Strategy the Council now needs to cut a further £15.8m from its budget in 2015/16 and should Government spending cuts carry on at the same level then it is estimated that another £15m may have to be cut in 2016/17. This means that by the end of 2016 we will have taken approximately 70% of our controllable budget, and this should be considered in light of the fact that Bury is a Council that is already recognised as providing services at very low cost.
- 1.6 The times ahead will be difficult, and the Council has some very difficult choices to make, not the least in reconciling the need to make cuts with the need to meet our legal duties, and to satisfy as far as possible the wishes of our residents.
- 1.7 Budget cuts of this magnitude will have a significant impact on residents and the Leader of the Council has written an open letter that sets out clearly the difficulties that the Council faces and the potential impact on the services that the Council provides.
- 1.8 However, these funding challenges also present an opportunity to pro-actively review the services we deliver, how we deliver them, and how to secure maximum value for money. We have previously done this through the "Plan for Change" but it is clear that the position set out in the draft MTFS will require even more radical solutions to be found.

- 1.9 This report builds on the points made within the MTFS and outlines, at a strategic level, the challenges facing the Council in the light of the Government funding reductions announced as part of the 2013 Spending Review and suggests an initial strategic response to the position.

2.0 BACKGROUND

- 2.1 In considering the budget position set out in the MTFS Members are reminded of the extent of the cuts that Bury has been forced to make since the coalition Government came to power:

Year	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	Total £'000
Savings	9,575	8,656	9,871	*7,432	35,534

Note:* This is the level of cuts identified in Plan for Change 2. They equate to £430 per household.

- 2.2 In the Chancellor's March budget there was reference to a further 1% reduction in the level of Government funding for local authorities for 2014/15; this has subsequently been confirmed and means that Bury needs to find an additional **£2.220m** of cuts.
- 2.3 This takes the 2014/15 cuts figure to **£9.652m** and the total cuts to **£37.754m**.
- 2.4 This equates to **28%** of the net budget (which stands at approximately £140m) and when compared to the 'controllable' budget (at £100m) the percentage rises to 38%.
- 2.5 The figures also exclude the fact that several £m of additional savings had to be made to both revenue and capital budgets as a result of cuts in specific grants that were imposed in the emergency Budget tabled immediately after the coalition came to power.

2015-17

- 2.6 Turning to the following two years, the headline figures set out in the CSR on 26 June 2013 indicated that Councils would face a further cut in funding of 10% for 2015/16. However what has now become clear from detailed consultation documents is that whilst the CSR headlines suggested a 10% real terms cut in overall funding for local government for 2015/16 the actual real term reduction in the basic allocation to local authorities is significantly higher than this and stands at around 14%.
- 2.7 There are several reasons for this including the fact that £1bn has been set aside from the settlement for allocation outside the main business rates retention system. This includes much of the 'new' money announced in the Spending Review and an increase in the amount of funding held back for the Business Rates Safety Net (because DCLG believe business rates performance nationally will be worse than originally anticipated) and for the New Homes Bonus (NHB).

- 2.8 These figures have been worked through the Council's budget model, taking account of basic pressures e.g. 1% pay award, increments, levies etc. and assuming that the Council Tax is frozen (qualifying us for a 1.1% grant).
- 2.9 The result is that for 2015/16 and 2016/17 we face a revised combined savings requirement of nearly **£31m**:

2015/16	£15.807m
2016/17	£15.554m

Further details behind these figures are provided within the MTFS itself.

- 2.10 It must be stressed that in line with the Council's cash ceiling rules these figures **exclude** any legislative / service pressures reported by Departments.
- 2.11 Finally Members are reminded that whilst the budget forecasts for 2014/15 and 2015/16 set out in this paper and the MTFS are based on the DCLG exemplifications these allocations remain 'draft' pending confirmation of final Settlements. In the case of 2016/17 the figures can be no more than 'best guesses' because Government spending levels and Departmental allocations will all be subject to future Spending Reviews which are unlikely to take place until after the next General Election.

3.0 STRATEGIC OVERVIEW

- 3.1 To date a significant majority of the cuts made have involved efficiency savings and the Council has striven, successfully, to protect front-line services. However this does not mean that the cuts have been without pain. Over 350 posts have been removed and of these around 100 posts were at senior manager grade, meaning that nearly 50% of such posts have been removed. It is clear that as time goes on the effect of these cuts and resource losses will become more and more apparent.
- 3.2 Whilst it is always the case that incremental improvements can be made to efficiency and that some reductions can be made in areas that do not directly impact on services to the public it is also clear that as a low spending authority Bury is reaching the point where cuts can no longer be made from pure efficiency savings. Posts have been shed, buildings closed, staff pay and conditions restricted, energy bills cut, recycling rates increased and purchasing costs slashed. Those options that are more straightforward and have the least impact on service users have already been taken and there is very little scope to repeat or extend these cuts in the future.
- 3.3 This means that Council Members, residents, and service users now need to be aware that, given the budget reductions that have been made so far, a further reduction of £31m will have a much more profound and direct effect on front line services. The scale of the impact of these cuts cannot be over-estimated and there is little doubt that they will strike at the very heart of what the Council does and what the public have got used to the Council doing.

- 3.4 The proportion of cuts that will have to be made in 2015/16 and future years that will impact on front-line services and possibly even on vulnerable people will be far higher than those implemented as part of past budget rounds. Cuts will be more difficult to identify and more complex (and expensive) to deliver particularly because the cuts that have previously been made to budgets mean that the remaining resources and services fall within the more "statutory and regulatory" category meaning that the Council has far less scope to make cuts.
- 3.5 All of this means that the financial year starting in April 2015 will be one when residents begin to see considerable changes to the way the Council operates and this will undoubtedly begin to affect people's daily lives. In order to meet this level of budget cuts the Council will have to radically examine services and look for every available opportunity to transform service delivery and approach and as a result the Council will look and feel very different in the future.
- 3.6 There will also have to be a radical change in the relationship between the Council and the borough's residents and service users. People's expectations about the level of service they can expect from the Council will have to be managed downwards and in turn the Council will need to ask people to help us to reduce our costs by changing behaviour that drives up our costs (e.g. littering; dog fouling) or by helping us to deliver services.
- 3.7 Whilst at this stage it is not possible to predict in detail the impact on the Council's workforce it is inevitable that further budget reductions on the scale set out in the report will result in a further significant reduction in the number of jobs within the organisation.
- 3.8 Over the next few months the Council needs to work through both a high level strategic response to these issues and begin to construct a set of practical organisational and service proposals to meet the financial challenge. The urgent priority is to develop proposals that will see reductions implemented by 1st April 2015 but that these need to be developed as part of a medium term financial plan that places these detailed budget options within a two-three year timeframe.
- 3.9 This is especially important because making widespread changes to services is both complicated and time consuming and based on past experiences we know that change takes time and also that it is often beneficial to make one larger change rather than a series of smaller changes.

Post 2015 Challenges

- 3.10 It is also essential that this work takes place within a clearly defined policy context and it is inevitable that part of this work will involve identifying those services and outcomes that are not seen as affordable or priorities for delivery by the Council going forward. It is worth highlighting at a strategic level what some of the policy considerations might be in the future. These changes are likely to include the following:

Changing the expectations about what the Council can deliver – In the future, the Council will not be able to meet all the public's needs/expectations or be able to deliver services at the quantity/quality/standard that we currently provide. The Council will need to be up-front about the need to cut services, spell out why levels of service are reducing, develop more targeting or in some circumstances stop delivering services altogether.

Working more closely with individuals and communities to deliver services – The Council will not be organisationally or financially able to meet all service needs in the future and therefore will need to work with individuals and communities to encourage them where possible to undertake more for themselves. This is an approach that we will need to consider across all the Council's services where we do not have an individual statutory requirement. For example, the Council may provide facilities or equipment but community/voluntary groups/individuals may have to organise events, maintenance, support etc. themselves. This approach builds on the very long standing and successful 'self management' partnerships operating for bowling greens, football pitches and play areas and, more recently, with the Park Rangers' service. More of this approach is needed and involves engaging and encouraging a greater partnership between the Council and voluntary community groups in providing services in their area.

A stronger focus on demand reduction - Part of the principles behind Public Service Reform is to manage the demand for services, reduce this demand where possible and to identify more cost effective ways of meeting the demands that remain. It is important that we adopt the same approach to the delivery of the Council's mainstream services. We have had some success in this through the change in the refuse collection facilities in that we have changed people's attitude to recycling and thereby reduced the amount of expensive residual waste disposal. All Departments will need to consider how they can influence demand for their services in the future and how demand reduction can play a role in delivering savings over the medium term.

An examination of alternative ways of delivering remaining Council services – In order to maintain the level of services delivered to the public, in some areas it may be more cost effective to deliver these services through an alternative mechanism to direct provision. This approach would need to be coupled with excellent commissioning and a robust quality assurance regime to ensure the maintenance of good services to the public while reducing the cost of the service to the Council. These alternative mechanisms can include setting up a Trust, a wholly owned company, a social enterprise, using the voluntary sector or the private sector etc. or shared services with other Councils. The Council of already has some services delivered in this way but given the financial challenge going forward it will be necessary to test out our current delivery arrangements against the alternatives that are available to determine what options exist to both ensure quality and deliver savings. Although it is difficult to be precise on the extent to which commissioning will increase and in what form, given that much of what the Council does is statutory in nature, in many cases the most realistic option for delivering savings will be to provide the services in a more cost effective way rather than cutting the provision further.

Changing the way Residents access services - Bury Council has been trying to widen access options in addition to providing very traditional ways residents and service users access services and secure information about services. Whilst there have been developments with the Council's web site to move to become a 24/7 Council access is still primarily through face to face contact and telephone.

The challenge for us is that we need to offer a wider range of 'self service' remote options similar to the high street experience so familiar to many of our residents, such as booking holidays, on-line shopping, and banking. In a post 2015 environment the Council will have to look to becoming a 'virtual' council where the 'high street' experience of 'self service' using smart technology becomes mainstream, whilst still offering the traditional options, but these, because of affordability, will have to steadily reduce over time.

4.0 PROPOSED TIMETABLE

4.1 In order to deal with this scale of reduced funding the Council will need to start developing its approach to the 2015-17 budget over the next few months. This is important because of the following factors:

- Developing budget options takes time, especially given the scale of the challenge that the Council is facing and the need to explore potential new approaches in many areas
- There will be a need to engage and consult the public, stakeholders, partners, trade unions and staff both strategically and on the detail of the options
- Following the approval of budget options post consultation there will be a period of implementation that typically takes between 3-6 months before the totality of the savings can be made.

4.2 In broad terms this implies the development of a strategic and operational response along the following timetable:

Now – Summer 2014 – The development of an overall budget strategy for the coming two years including detailed budget options for 2015/16 and 2016/17 if achievable

Summer 2014 – Autumn 2014 – formal consultation on the detail of the strategic budget and budget options

Autumn 2014 – Spring 2015 – Implementation of sufficient budget options to achieve the reductions required for 1st April 2015

Spring 2015 onwards – the further delivery of budget options to ensure that the overall budget reduction targets for the period are met

5.0 CONCLUSIONS

5.1 The Government cuts that we are now facing mean that the Council is moving into uncharted waters, and the MTFs indicates that we may face cuts of a further £31m in 2015/16 and 2016/17 on top of the £38 million already cut in the last three years.

- 5.2 There is no doubt that there will be very serious consequences as a result of these cuts for our borough and the many services the Council provides. All this is happening at a time when great pressure is being placed on important services such as roads, libraries; leisure, parks; and children's centres. Many of these services are in fact making pressing cases for further investment.
- 5.3 The scale of the cuts and pressures cannot be over-estimated and it is clear that we will no longer be able to rely on efficiency savings alone to balance the books.
- 5.4 We now have to strike a balance between providing services that we must provide by law, and those that we do not. The report provides a timetable for preparing budget options for 2015/16 onwards and the Council remains committed to consulting widely on any proposals as soon as this is possible.
- 5.5 However it is clear that services may have to be closed, restricted or changed in some way and whilst the Council is determined to do everything possible to reduce the impact of these changes on our most vulnerable residents, and try to offer alternative arrangements where we can it is not possible to make any guarantees at this stage.
- 5.6 This report is intended as an initial analysis of the scale of change facing the Council. At this stage Members are simply asked to approve the MTFs itself and there are no formal decisions to be made about the detail of how the Council will meet the challenges it faces. However it is critically important that everyone understands the context and the scale of the decisions so that effective long-term planning can commence and that the appropriate organisational, political and managerial leadership is applied to the issue.

**COUNCILLOR JOHN SMITH
DEPUTY LEADER/CABINET MEMBER FOR FINANCE AND CORPORATE AFFAIRS**

List of Background Papers:-

None

Contact Details:-

Mike Owen, Executive Director of Resources; Tel 0161 253 5002; E-mail m.a.owen@bury.gov.uk

Stephen Kenyon, Assistant Director of Resources; Tel 0161 253 6922; E-mail s.kenyon@bury.gov.uk