
REVIEW OF THE MEDIUM TERM FINANCIAL PLAN - REVENUE

Responsible Cabinet Member - Councillor John Williams, Leader

Responsible Director - Corporate Management Team

SUMMARY REPORT

Purpose of the Report

1. To update Cabinet on the implications of Government grant reductions in 2010/11 and announcements made in the emergency budget and propose changes to the MTFP in response to reductions in funding.

Summary

2. The Council faces its most significant financial challenge in the next few years and this report sets out the scale of the challenge. In the current financial year the Council has had £1m of revenue grants withdrawn by the Government and this report recommends in year savings to offset the loss of income. The report also sets out the direction of travel for a new management structure.

Recommendation

3. It is recommended that :-
 - (a) The significant impact of the recent Government announcements in the emergency budget be noted.
 - (b) Reductions as set out in **Appendix 2** be approved.
 - (c) No further schemes be implemented from the playbuilder funding.
 - (d) In respect of management structures the proposals, timescale and savings target be agreed.
 - (e) Further reports relating to the proposals for 2011/12 and beyond be presented to Cabinet in the autumn.
 - (f) Budget proposals with workforce implications in terms of redundancy are subject to ongoing consultation in accordance with statutory requirements and under delegated powers relevant officers will continue consultation with a view to reaching agreement. Any financial impact of changes agreed as part of the ongoing consultation process will

be reported back to Cabinet.

Reasons

4. The recommendations are supported by the following reasons :-
 - (a) To update Members.
 - (b) To balance the 2010/11 budget.
 - (c) To increase revenue balances to assist with meeting the medium term financial challenge.
 - (d) To enable the restructure proposal to be developed.
 - (e) To progress the revision of the MTFP.
 - (f) To facilitate statutory consultation.

Corporate Management Team

Background Papers

- (i) Notifications from Government of grant withdrawals
- (ii) Equality Impact Assessments

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S17 Crime and Disorder	One of the budget reduction proposals could potentially impact on Crime and Disorder, but Impact Assessment found that this was unlikely to be significant.
Health and Well Being	There is the potential for indirect effects on the health and well-being of children through the budget reduction proposals relating to Contact Point and Extended Schools Services, but these have been assessed as being of minimal or low risk. The safety of children could be affected by the proposals relating to school crossing patrols and road safety education, and risks must be mitigated in the detailed implementation of the proposals. There are no other significant health and well-being implications arising from this report.
Sustainability	The budget reduction proposal for reducing climate change project work could impact on achievement of carbon reduction targets. Transport related reduction proposals could result in additional car use. There are no other significant sustainability implications arising from this report.

Diversity	The Council has a statutory duty to promote equality and must consider the impact that decisions may have on certain groups, including disabled people. Equality Impact Self-Assessments have been carried out, which are referred to in paragraphs 43 to 45 of the report. Cabinet members have considered the assessments.
Wards Affected	There is the potential for differential impact in the detailed implementation of some of the budget reduction proposals, but there is no geographical bias in any of the proposals at this stage, other than in the withdrawal of funding from the Bishop Auckland Railway, and the Shopmobility grant proposal, which affects Central Ward. Otherwise all wards are affected equally by the contents of this report.
Groups Affected	There will be differential impacts on children, through the budget reduction proposals relating to school crossing patrols and road safety education; and on older and disabled people, through the proposals relating to concessionary fares, taxi vouchers, Ring a Ride and Shopmobility.
Budget and Policy Framework	The proposed changes to the budget are within the limits delegated by Council to Cabinet. The report does not recommend changes to the policy framework.
Key Decision	This is a key decision
Urgent Decision	This is not an urgent decision
One Darlington: Perfectly Placed	The capacity of the Council to plan and co-ordinate the delivery of One Darlington : Perfectly Placed through existing arrangements and frameworks, including policy and performance management support to partners, will be reduced by some of the budget proposals. However, arrangements and frameworks are changing through the development of the new business model, and questions of capacity will be dealt with through the transformation agenda. The risks posed by the proposals are considered to be sustainable.
Efficiency	This report is primarily concerned with keeping Council expenditure within available resources. The recommendations take account of efficiency in aiming to continue to deliver the best achievable outcomes within the reduced level of resources now available.

MAIN REPORT

Context of Report

5. Before moving in to the detail of the report, it is useful to consider the context in which the decisions within this report are made; it would be easy to get immersed in the detail of the proposed reductions and lose sight of the medium term picture. The Council has adopted a new business model and at your last meeting agreed the approach outlined in the transformation journey – Darlington 2015. Darlington 2015 sets out how the Council will change and adapt to the new environment in which it will be operating, the Council has a plan to re-establish itself in the medium term as a sustainable Council serving the citizens of Darlington well. The journey to that new Council will be very challenging in terms of the changes needed to the way we support citizens and in the short term decisions will need to be made with a short term focus as to do otherwise would preclude the realisation of the new Council. The next few years will be very challenging but the medium term vision must not be lost.
6. It is suggested that the following principles should guide the process and handling of changes :-
 - (a) We need to retain confidence and avoid panic
 - (b) One Darlington Perfectly Placed remains our agreed ambition, but will take longer to achieve.
 - (c) We want the wider public to understand the challenge the Council has been required to deal with.
 - (d) We want the wider community/stakeholders to be involved in determining the actions needed in response to the changed environment.
 - (e) We need to move quickly to make decisions for 2011/12 in the current year so that we can start securing the level of reductions required.
 - (f) We need to retain balances to support the transition.
 - (g) We need to do our utmost to engage and support the workforce during this very difficult time.

Background

7. The MTFP was revised in February this year during a period of significant uncertainty about future funding levels for Local Government. Informed assumptions were used as follows:
 - (a) Council Tax increases 2011/12 1%, 2012/13 and beyond 2%.
 - (b) Formula Grant a 3% cash reduction for the next three years.
 - (c) Area Based Grants and specific grants a 3% cash reduction for the next three years
 - (d) Pay Awards.

	%	
2010/11	0.5	Each 1% equals £600,000
2011/12	1.0	
2012/13	1.5	
2013/14	1.5	

- (e) Running Cost inflation 0% except contractual increases.
- (f) No capital receipts assumed.
- (g) Interest rates steadily increasing.

8. Based on the above assumptions additional annual savings as follows need to be made:

	£M's
2011/12	4.3
2012/13	2.6
2013/14	3.5
TOTAL	10.4

9. The savings are in addition to those approved in the revised MTFP (£11.1M) many of which are currently in the planning and implementation phase.

Update on Financial Projections

10. Since approval of the MTFP in February the financial horizon for Local Government has changed dramatically. First the Government announced in year spending reductions totalling £6.26bn across the public sector, Darlington has had £1.0M of 2010/11 revenue grants withdrawn and told it will not receive the expected £1.1M performance reward grant. Secondly, the emergency budget indicated that funding for Local Government may reduce by 25% over the next four years which is significantly higher than our assumptions of 3% per annum.
11. The reduction in grants to Local Government highlighted in the emergency budget will have significant impact on the Council's plans for the future. Full detail of the implications will not be known until after the Comprehensive Spending Review (CSR) is announced in October in relation to the exact reductions and the phasing of the reductions over the years; however, we must start to plan for what will be very significant reductions in our spending. Set out below are two possible illustrations of what different phasing of a 25% grant reduction may mean:

(a) 25% grant reduction spread evenly over 4 years

Savings required	2011/12	2012/13	2013/14	2014/15
	£M	£M	£M	£M
Assumed in MTFP	4.3	2.6	3.5	0
New – phased equally	3.1	2.1	2.1	4.4
Total	7.4	4.7	5.6	4.4
Cumulative	7.4	12.1	17.7	22.1

(b) 25% grant reduction front-loaded; 10% in first 2 years then 5%

Savings required	2011/12	2012/13	2013/14	2014/15
	£M	£M	£M	£M
Assumed in MTFP	4.3	2.6	3.5	0
New – front-loaded	5.9	4.9	1.3	0
Total	10.2	7.5	4.8	0
Cumulative	10.2	17.7	22.5	22.5

Note, "new" reductions include the £1.0M reduction announced 10 June 2010.

12. The emergency budget referred to the Government's desire for Council Tax to be frozen for at least one year, ideally two. This could be done by imposing a zero cap. That would reduce resources by £0.4M in 2011/12 and each subsequent year. If extended to 2012/13 it would reduce resources by a further £0.8M, i.e. a total of £1.2M annually from 2012/13. The budget statement talked of "working with councils" and "compensation". Details have not been announced but the implication is some form of grant incentive to freeze Council Tax, possibly 50% of the difference between zero and a nationally-assumed increase. Potentially, that could mean no loss of resource in the short term but the grant may be for one or two years only, whereas the lost Council Tax revenue would be permanent. The above figures do not assume any net loss of Council Tax revenue.
13. As previously highlighted, £1.0m of Government grants have been lost in year which needs to be addressed urgently if balances are to be retained to support the transition (paragraph 6(f)). The remainder of this report proposes a plan to respond to the 2010-11 grant reduction and establish a plan to meet the increased financial challenge in future years.

Responding to Increased Financial Challenge

14. Members will appreciate that the financial challenge the Council faces is by far the most significant it has ever faced and we need to start planning for and implementing change immediately, the sooner decisions can be made the sooner financial savings can be achieved therefore the current approach of reviewing the MTFP annually with approval in February each year will need amending. This report proposes changes to the MTFP to offset the loss of Government grant which will also start to reduce the deficit in future years.
15. Later in 2010 a more fundamental review of the MTFP will be undertaken with the view to agreeing the revised MTFP in November/December 2010 as opposed to the normal timetable that would suggest agreement in February 2011.
16. In approving the new business model Members agreed the need for significant change to the way the Council conducts its business in terms of WHAT it does, HOW it does it and WHO does it. The challenge has now at least doubled in size so the pace of change will be even greater. The MTFP as agreed assumed a phased approach in terms of change with the transformation of services delivering savings in the medium term with the need for some short term tactical savings to bridge the financial gap pending the delivery of transformational savings. The situation has now changed and so our approach needs to change. The level of tactical savings needed has significantly increased and therefore we will need to make decisions in the short term to reduce services that it may be possible to reintroduce in the medium to longer term when transformational savings are delivered. The key message is we are still implementing the Business Model, however in the short term there is an increased emphasis on tactical savings to enable us to get to the medium term. The projects to deliver a transformational Council must continue to ensure we can deliver a sustainable Council delivering for the citizens of Darlington.

Scope of the Financial Challenge

17. The immediate question will be what does this mean and although the exact detail must be worked up during the summer and considered by Members in the autumn, it is clear that some services will either be stopped or considerably reduced, staffing levels as a result will have to be significantly reduced as services reduce and a review of staffing structures

overall will be required. The way services are delivered and how they are charged for will be reviewed. Services may be withdrawn but we may facilitate local residents to carry out the functions for themselves, we may transfer assets to the voluntary sector and ask them to provide services, all of this being consistent with our agreed business model.

18. In pure financial terms the following information can assist Members in understanding the size of the challenge :-

Potential Reductions Required	£22M
Controllable Budget	£107M
Percentage Saving	20.5%

Controllable Budget – Key Spending Blocks

	£Ms
Education Services other than schools	23.9
Social Care	42.4
Highways and Transport	8.5
Culture and Leisure	8.6
Environmental and Regulatory Services	8.0
Planning and Development Services	3.5
Housing Welfare and Benefits Administration	5.5
Other Services	6.6
TOTAL	107.0

Funded by:

Government Grants	67
Council Tax	40
	107

In Year Grant Reductions 2010-11

19. Set out below are the exact details of the revenue grant reductions announced by the Government, some are specific reductions where others are a percentage reduction across a range of grants, therefore, it is not possible to identify exactly where the Government intended the reductions to be made. **Appendix 1** is an illustration of how education grants would be reduced if the reduction was applied evenly across all grants.

20. Table of Revenue Grant Reductions 2010-11

Grant	2010-11 original grant £000	2010-11 revised grant £000	Reduction £000
Education Area Based Grants (ABG)	3,577	2,821	756
Supporting People Administration Grant	114	0	114
Road Safety Grant - Revenue	162	119	43
Home Office ABG	16	0	16
Total	3,869	2,940	929

Proposed Savings

21. To respond to the grant reductions, Corporate Management Team (CMT) have reviewed the areas where funding has been removed to consider how savings could be achieved, they have also looked at some other areas where in year savings are felt to be achievable. This review was undertaken together with Cabinet and attached at Appendix 2 is a list of recommended reductions together detailed proposal sheets at **Appendix 3**.
22. Members will see that in reviewing budget for 2010/11 Cabinet have also identified the impact in future years of the savings that are proposed for implementation this year. The proposed savings detailed at Appendix 2 will achieve the following:

	2010/11	2011/12	2012/13	2013/14
	£M's	£M's	£M's	£M's
Savings as per Appendix 2	1.2	1.4	1.4	1.4

23. In addition to the above and work underway to develop proposals for the review later in the year, managers will be taking ongoing management action within the agreed policy to limit expenditure and this will be reported via monitoring reports.
24. Members may note that there are no proposals with respect to some of the biggest spending areas of activity, culture and environment for example. Clearly these areas need to yield very significant amounts of reduction in spend and rather than progress small scale change now it is intended to bring back more substantial options later in the year.
25. The above savings are gross of redundancy costs and the detailed proposals at Appendix 3 identify that 20 potential redundancies will result from the recommended savings. These are in addition to other potential redundancies which may result from ongoing work as part of the existing MTFP and other management initiatives.
26. The cost of redundancies will need to be met from revenue balances. The Council has available balances of some £6M over and above the £6M risk balances which Council has agreed need to be retained and it is proposed that balances are not significantly reduced to support revenue expenditure but set aside to cover costs associated with decommissioning services including redundancy costs. Monitoring reports will identify the associated cost to Members.

Impact on the Workforce

27. The proposals contained in this report will lead to 20 potential redundancies and if agreed in principle and these will then be subject to the statutory consultation during which time staff and trade unions will be consulted on the proposals. The consultation period will be a minimum of 30 days following Cabinet's agreement in principle. In addition to the proposals contained in this report, detailed at paragraph 25 there are other potential redundancies which may result from ongoing work as part of the existing MTFP and other management initiatives. This work involves a further 33 potential redundancies where consultation is due to start or is already ongoing.

28. Clearly the next phase of the review will have a significant impact on the workforce. There will be individual service changes that will impact on the workforce and in addition CMT are reviewing the overall shape and management structure of the Council with a view to reducing costs by a minimum of £1m per annum.
29. The review of management structures emerges from the Transformation Programme which recognised that in the transition to a new Business Model that the shape and form of the Council would need to change. It recognises as well that as services are reconfigured, reduced or moved into different delivery arrangements that this has a consequent impact on management costs and structures. Since the last review of Council structures in 2007 it has been incremental flattening and alignment of functions that have kept management costs as low as possible.
30. In setting out a future shape for the Council that will inform proposals to restructure there are two guiding factors : the move towards a strategic commissioning organisation and the clear focus on better outcomes in two areas - for people (One Darlington) and for place (Perfectly Placed). It is envisaged therefore that the Council would reduce from four to three groups of services - People, Place and Strategic Support (these are not titles as such, more a description of primary accountability).
31. A Council structured around broad outcome groups (as against specific services) needs to function differently. There would be less of a sense of distinct departments with a relationship to the centre. Instead departments would consist of coherent blocks of services with clear responsibility at Assistant Director level, and with CMT operating collectively as the strategic and operational leadership of the organisation.
32. It is intended that the MTFP review and move to the new organisational shape would deliver at least £1m savings across the cost of the top three tiers of management to add to reductions in management made through previous MTFP's and other reviews. The precise sums will flow from the detailed work that has commenced to undertake the following tasks:-
 - (a) Design the detailed shape of the new departments in the context of wider MTFP proposals.
 - (b) Understand the HR implications in terms of the Management of Change policy
 - (c) Assess the most effective timeframe and process for achieving reorganisation (likely to be phased)
 - (d) Understand and develop mitigating options for risks within the structure.
33. It is crucial given the challenge that faces the Council and the impact that this will have on the workforce that we do our utmost to engage or support our staff through these very difficult times.

Engagement on Current Proposals and Future Proposals

34. The Council has had success in developing its approach to engagement around the MTFP in recent years. Events, the on-line Forum and Scrutiny hearings have created a variety of ways in which Members, stakeholders and the public can comment. Crucially, up to this point the Council's finances have enabled some opportunities to respond to consultation by withdrawing or amending specific proposals.

35. In the new environment, the scope to reduce proposed savings in response to consultation is very limited. There is no part of the Council unaffected, and any amendment made will require a further corresponding reduction somewhere else. If possible, then this should already have been identified.
36. However there is an important role for engagement to play, and given the scale of impact the reductions will have, a vital leadership role for the Council in taking Darlington through this time of change.
37. Engagement should be focussed on :-
 - (a) Understanding and where possible responding to the impacts of reductions.
 - (b) Contributing to future re-design of services or creation or re-emergence of new models of service delivery.
 - (c) Communicating the values and principles underpinning the choices the Cabinet will make.
38. Work is in hand to design options to make sure we have an approach that is effective and that enables rapid decision making.

Capital Expenditure – Playbuilders

39. In addition to the proposals set out above, the Council has the opportunity to review the allocation of £600,000 Playbuilders capital funding. The grant funding was made available by the Government to enhance play areas; however this funding is not ring-fenced and can be used for other purposes. To date, approximately £184,000 has committed to fund completion of Year 1 sites and developing Year 2 sites to tender stage. To date the only site where commitments are made to complete the scheme is Green Park. Should funding be redirected to other Council priorities then the following schemes would not go ahead: North Lodge Park, Tommy Crooks Park, Darrowby Drive, Springfield, Rockwell, Auckland Oval, Fryers Crescent, South Park, Hurworth and Middleton St George. Uncommitted funding to date for the Playbuilders programme is £416,000.
40. If these schemes were not to go ahead the Council could use the funding for other higher priority capital schemes or use it to substitute revenue funding of capital and therefore return it to revenue balances thus improving the Council's ability to meet the financial challenge.
41. Given the financial challenge this Council faces, Cabinet would recommend that the schemes be cancelled. In coming to this decision Cabinet took into account the financial challenge the Council faces and the fact that new play equipment would bring with it increased maintenance costs. There is also a risk that non-committed grant funding of this nature could be withdrawn by the Government, which is a further significant reason for not committing any more resources on this programme.

Outcome of Consultation

42. There has been no consultation on the contents of this report. However, relevant pre-existing consultation information has been used to inform the impact assessments of the proposals for budget reductions, as outlined in the following section.

Impact Assessments

43. The budget reductions proposals listed in **Appendix 2** have been self-assessed for their impact on: Equalities (including disability equality); Poverty; Environmental Sustainability; Health and Safety; Partners; and Public Perceptions and Unintended Consequences. Several of the proposals were brought together into 'group assessments' where they relate to similar or linked services or customer groups, so that a total of 23 assessments were carried out. A range of options were considered as a part of the assessment, and mitigating actions have been and are continuing to be considered.
44. The impact self-assessments found that more significant potential impacts on service users could arise, particularly for older and disabled people, from the transport related proposals. The proposal to delete vacant posts in the Ethnic Minority and Traveller Service will reduce capacity to deliver language support to young people and asylum seekers, and services to travellers. The proposals relating to concessionary fares, taxi vouchers, Ring a Ride and Shopmobility grant were considered together as a single assessment because of their potential combined effects on similar user groups.
45. However, it is considered that the impact of these transport-related proposals is sustainable in terms of the level of service that will continue to be provided and available mitigation measures. These include, for example, working with the hospital to ensure that appointments and volunteering commitments can be accommodated within the statutory concessionary travel limits (9.30am-11.00pm); continuing to work with bus companies on the provision of low-floor bus services; and working with Adult Services to deliver personalised transport solutions for the small group of people to be most affected by the withdrawal of Ring a Ride.