

Meeting of the Cabinet – 10th November 2016

Joint Report of the Chief Executive and Chief Officer, Finance and Legal Services

Medium Term Financial Strategy

Purpose of Report

1. To consider the latest General Fund revenue position for 2016/17 and provisional Medium Term Financial Strategy (MTFS) to 2019/20.
2. Cabinet is not being asked to make final decisions. The savings proposals in this report will be the subject of public consultation and will be considered by Scrutiny Committees before returning to Cabinet in February and going to Full Council for final decisions in March. Proposals about the Council Tax Reduction scheme have already been through public consultation and scrutiny and final decisions will be by Full Council in December. Proposals in relation to the severance scheme and the management of redundancies will be consulted on with the unions before a final decision by the end of November.

Background

3. The Council approved the General Fund budget for 2016/17 and the MTFS to 2019/20 on 29th February 2016.
4. Further reports on the outturn, budget and MTFS were considered by Cabinet on 29th June 2016 and Council on 11th July 2016. Where relevant, matters considered in those reports are repeated in this report. For avoidance of doubt, previous proposals in relation to charging for green waste collection and alternate weekly collection of waste have been removed from the MTFS in accordance with the resolutions passed by Council on 11th July.

External Audit

5. The External Auditors (Grant Thornton) presented their Audit Findings Report to the Audit and Standards Committee on 20th September 2016. They gave an unqualified (i.e. favourable) opinion on the Financial Statements for 2015/16. However, based on an assessment of the Council's MTFS at the time, their Value for Money opinion included a qualification (i.e. an adverse opinion) in respect of the Council's financial sustainability.

6. The Audit Findings Report also stated that the External Auditors were considering issuing a formal recommendation to the Council under Section 24 of the Local Audit and Accountability Act 2014. They have subsequently reviewed progress made to identify and plan for savings. In light of this, they have decided not to take action under Section 24 of the Act at this stage. However, they will keep this under review during their 2016/17 audit work.

Forecast 2016/17 Position

7. The Council started the year with a very low level of revenue reserves. As at 31st March 2016 unringfenced revenue reserves as a proportion of the net revenue budget were 18% (compared to the national average of 41%). The current 2016/17 budget will worsen this position by using a further £15.1m of revenue reserves. This is not sustainable and directorates are exercising tight budget control in order to reduce this level of spending as far as possible. Forecast variances compared with budget are shown in Appendix A and summarised below.
8. The Chief Executive directorate is forecasting a £0.5m favourable variance. This is mainly as a result of additional income from Land Charges and Benefits Subsidy.
9. The People Directorate continues to progress with improving the financial position following the prior year's budget adjustment. As a result, a favourable variance of £2.5m is forecast. This is a consequence of stronger management oversight, external challenge, smarter business processes and income generation.
10. The Place Directorate is experiencing a number of pressures. These include increased incineration costs and shortfalls in income within Landscape Services. However, these are being managed and the Directorate is targeted to break even by the end of the financial year.
11. Due to the reduction in interest rates and reduced in year borrowing requirement there is a forecast £0.1m surplus within Treasury.
12. The current budget for 2016/17 includes provision of £5.1m for severance costs to deliver staff savings for 2017/18. This provision has been reviewed in the light of previous trends, the proportion of savings likely to come from staffing reductions, and the proposed changes to severance arrangements (see paragraphs 42 and 43 below). It is now forecast that these costs can be reduced to £4.3m.
13. Even with the favourable forecast variances set out above we are still forecasting to use £11.2m of General Fund reserves during 2016/17. Whilst this is an improvement, it is still unsustainable. Directorates will continue to exercise tight budget control so as to further minimise the use of reserves in the current year.

General Fund Balances

14. The latest forecast General Fund Balances position, compared to the original Approved Budget for 2016/17 is therefore as follows:

	Current Budget £m	Latest Position £m
Balance at 31 st March 2016	27.2	27.2
Planned use approved by Council in February	-13.9	-13.9
Changes approved by Council in July	-1.2	-1.2
	12.1	12.1
Chief Executive's favourable variances		0.5
People net favourable variances		2.5
Treasury surplus		0.1
Change in provision for redundancy costs (para 12)		0.8
Forecast balance at 31st March 2017	12.1	16.0

Medium Term Financial Strategy to 2019/20

15. In updating the Council's Medium Term Financial Strategy, Members will need to consider carefully:
- (a) the levels of Government support allocated to the Council;
 - (b) spending pressures, opportunities to free up resources (including savings), and Council Plan priorities;
 - (c) the implications of spending levels in later years as part of the Council's medium term financial plan;
 - (d) the views of consultees;
 - (e) the external factors and risks inherent in the Strategy;
 - (f) the impact on Council Tax payers.
 - (g) the potential impacts on people with protected characteristics as defined in the Equality Act 2010. Members will need to have due regard to the public sector equality duty under the Equality Act 2010. (Further details are set out in the Equality Impact section below.)

Government Funding

16. The 2016/17 Local Government Finance Settlement included indicative figures up to 2019/20, together with an offer to enter into agreement with individual councils to give a guaranteed minimum level of funding¹ up to 2019/20 subject to having an efficiency plan for the period, though the full terms and conditions were not clear at the time. It was subsequently clarified that a published MTFS (as included in our Council Tax setting report) would satisfy the requirement to have an efficiency plan, and on the basis that the guarantee was a minimum, our expression of interest was submitted. We are awaiting confirmation of the offer from Government. The figures below therefore continue to reflect the indicative figures.
17. The Government has consulted on various technical issues relating to the 2017/18 Settlement including the proposed approach to distributing funding through the Improved Better Care Fund (BCF) using a methodology that takes account of each council's capacity to raise resources through the adult social care precept. This is in line with the approach set out at the time of the 2016/17 Settlement and reflected in the existing MTFS.
18. Forecast New Homes Bonus (NHB) income continues to reflect Government projections, although final figures will depend on the outcome of the current review of allocation methodology and actual new home completions locally.
19. Dudley currently receives an annual Education Services Grant (ESG) of £3.6m to fund a number of education front line services to schools and central support services to schools. The Government has previously indicated changes as follows:
 - From April 2017, £0.7m funding currently within ESG would still be available but transferred in to the Dedicated Schools Grant (DSG). The precise details as to what central services the Local Authority would be able to spend this on would not be known until late in 2016 when the Department for Education (DfE) issue the School Finance Regulations.
 - From September 2017, the remainder of the ESG would cease. This would mean a reduction in 2017/18 of £1.7m, rising to £2.9m in 2018/19. However, the DfE indicated some transitional protection which may mitigate the full impact of the grant reduction for 18 months.

On 27th October, the Education Secretary announced that the Government would no longer be going ahead with its Education for All Bill. At this stage it is not clear what implications this latest announcement will have for the Council's role in relation to education or for the ESG. Given the uncertainty of the current position, no changes have been made to MTFS forecasts, but this is noted as a risk in paragraph 53. Once implications become more clear, they may necessitate a discussion with Schools Forum and a further report to Cabinet.

¹ Revenue Support Grant and the underlying value of Top-Up Grant, recognising that the latter may need to be amended to reflect changes such as business rate uplifts and revaluation, or the planned move to 100% business rate retention.

Council Tax

20. Latest forecasts indicate:
- a one-off Collection Fund surplus for the current year of £1.0m, resulting mainly from a reduction in Council Tax Reduction (CTR) claimant numbers, together with better than anticipated collection rates;
 - an ongoing increase in income of £0.7m per year resulting from the reduction in CTR claimant numbers .
21. Proposals to amend the CTR scheme were initially considered by Cabinet on 20th July and subsequently by the Corporate Scrutiny Committee on 27th September. After considering the outcomes of consultation, member scrutiny, the equality impact assessment and the Council's financial position, it is proposed that "Option 2" be recommended to Council. This option increases the minimum payment of Council tax from 20% to 22%. A summary of options and consultation responses is set out at Appendix B. Forecast figures for Council Tax income in paragraph 47 take account of the recommended option which is estimated to increase income by around £0.152m.
22. It is also proposed to document the CTR scheme in such a manner that any personal allowances, premiums, disregards and non-dependent deductions are automatically linked to equivalent annually up-rated values published by central government in either Housing Benefit Legislation or the prescribed Council Tax Reduction Scheme for pensioners (including any other miscellaneous amendments to the aforementioned legislation that are relevant to our local scheme). The Council may wish to consider further scheme changes next year or in subsequent years. By documenting the scheme in the proposed way, it will not need further public consultation or re-approval until such time that further scheme changes are considered.
23. The consultation on technical issues referred to in paragraph 17 above included proposed Council Tax referendum principles for 2017/18 the same as those set in 2016/17 – i.e. for the Council, a core limit of 2% plus an additional 2% adult social care precept (subject to consideration of the use made of the precept in the current year).

Business Rates

24. As a result of better than forecast trends in respect of gross Business Rates payable, mandatory and discretionary reliefs, we are forecasting an ongoing increase in net income of £1.3m per year from 2017/18 onwards.
25. We have also reviewed the Collection Fund for Business Rates. There is still considerable uncertainty in this respect, particularly as a result of a large number of outstanding appeals relating to doctors' surgeries, with potentially significant backdating implications. We will review progress with these appeals and overall performance of the Collection Fund and report back to Cabinet in February.

26. The next revaluation of all properties for business rates will take effect from 1 April 2017. Revaluation is done to maintain accuracy in the rating system by reflecting the changes in the property market since the last revaluation in 2010. Revaluation does not raise extra revenue nationally. This is because the government will reduce the tax rate – known as the multiplier – to offset the overall change in rateable value at the national level. Changes in rateable value at individual authority level will be offset by changes to top-up grants and tariffs. Therefore our forecasts are based on revaluation being cost neutral.
27. The Department for Communities and Local Government (DCLG) has invited councils in Combined Authority areas to pilot 100% local retention of business rates from 2017/18. In order to meet DCLG deadlines, the Leader in consultation with the Chief Officer (Finance and Legal Services) made a decision by Decision Sheet on 21st October (Ref. CEX/11/2016) to participate in a West Midlands pilot on the basis of no detriment to individual authorities.
28. The pilot will help secure certainty with regard to funding for the Combined Authority's investment programme and will potentially result in a financial gain to the Council subject to agreeing with DCLG the basis of relevant detailed calculations. We will report back to Cabinet in February with further details.

Combined Authority

29. When Council approved the budget on 29th February 2016, it was also working with partner councils to create the West Midlands Combined Authority (CA) and to start delivering the estimated £8bn Devolution Deal agreed with the Government. It was expected that there would be initial costs of preparing for this investment which the seven Metropolitan District Councils would need to meet as its constituent councils. It was proposed that each authority would include £0.5m in their budgets to provide for such potential revenue costs. It was recognised that the actual initial budget for the CA would be agreed in due course. It was assumed at the time that this support would be for one year only, as it was expected that the CA would be able to raise its own revenue resources from 2017/18 onwards.
30. The CA has now been formed and, although it has not as yet finalised its budget, it is now thought that further revenue contributions may be needed in the future to support its economic development and regeneration functions. While constituent councils set their 2016/17 budgets on the basis that these contributions would be in equal shares, they will need to consider in due course how any contributions in future years are to be shared. The West Midlands Combined Authority Order 2016 (article 5) provides that these costs may be shared on any basis agreed by the constituent councils or by default must be shared in proportion to population.
31. A provision of £0.5m has been included in the Council's budget for 2016/17. No provision has been included in the MTFS for later years and this will need to be reviewed in due course.
32. In addition to the economic development and regeneration functions set out above the CA has also taken over the levying powers of the former Integrated Transport Authority (ITA). We have assumed based on the then ITA's MTFS that the Levy will reduce by 2.6% over the next two years. This will be reviewed in line with further announcements from the CA.

Base Budget Forecasts

33. The Base Budget reflects the impact on spending of forecast inflation and other anticipated changes, before directorate spending pressures or savings proposals are taken into account. Details are as follows.

	2017/18	2018/19	2019/20
	£m	£m	£m
2016/17 base	226.0	226.0	226.0
Children's Services Improvement (<i>note 1</i>)	1.4	1.4	1.4
Pay (<i>note 2</i>)	1.3	3.0	5.1
Transport Levy (<i>see para 32</i>)	-0.2	-0.4	-0.4
Income uplift (<i>note 3</i>)	-1.2	-2.1	-3.0
MRP Policy (<i>note 4</i>)	-0.5	13.8	14.2
Pensions (<i>note 5</i>)	2.2	2.6	2.8
Apprenticeship Levy	0.5	0.5	0.5
Other adjustments (<i>note 6</i>)	1.0	-1.6	-1.0
Base Budget Forecast	230.5	243.2	245.6

Notes:

- (1) As approved by Council in July 2016.
 - (2) We are expecting underlying pay awards for local government to continue to be settled at very low levels in the next few years. In addition to providing for the increase agreed for 2017/18 as part of the current 2 year award, based on a 1% underlying increase and the anticipated impact of the National Living Wage (including the maintenance of appropriate differentials as a consequence of the latter) we have allowed for increases on a similar basis in subsequent years.
 - (3) Assumes an increase of 2% per year on fees and charges.
 - (4) In particular this reflects the fact that the Council will recommence making Minimum Revenue Provision (MRP) for repayment of debt from 2018/19 as required following the review of MRP Policy in 2015/16.
 - (5) This reflects the uplift in pension contributions from 2017/18 to 2019/20 that was anticipated at the last triennial valuation in 2013. A new triennial valuation is currently under way and the associated risks are noted in paragraph 53 below.
 - (6) Impact of Capital Programme and treasury management changes, and other minor adjustments.
34. Note that there is no provision for general price increases on non-pay budgets. With the exception of specific directorate pressures (see paragraph 35 and Appendix C) all non-pay budgets will be cash limited and any inflationary pressures will need to be managed within directorate budgets and through efficient procurement.

Spending Pressures

35. Spending pressures provided for are as follows. These are detailed in Appendix C.

	2017/18	2018/19	2019/20
	£m	£m	£m
People	1.7	3.9	8.9
Place	0.8	1.1	1.3
Total	2.5	5.0	10.2

Savings

36. In addition to savings already included in the MTFs, reviews of the Council's activities have identified further potential savings. As well as specific Directorate savings, these include proposals to amend staff terms and conditions of employment. These changes will be subject to consultation/negotiation with the relevant unions. Details are set out in Appendix D.

37. In total the following saving proposals have been identified as the basis for scrutiny and consultation.

	2017/18	2018/19	2019/20
	£'000	£'000	£'000
People	11.7	13.2	14.3
Place	3.0	5.9	5.9
Chief Executive's	2.2	2.6	2.8
Terms and Conditions	1.5	1.5	1.5
Total	18.4	23.2	24.5

Public Health

38. In early 2016 the Government provided an indicative 2017/18 Public Health Grant (PHG) allocation of £21.3m which represents a cut of 2.5% from 2016/17. Future grant allocations are expected to fall by 2.6% per annum. To address these reductions in grant, Public Health have reviewed all areas of the services and identified £2.5m of potential savings by 2019/20. Details of these savings proposals are set out in Appendix D. The overall deployment of the 2017/18 funding will be brought back to Cabinet for consideration in February 2017.

39. The savings identified from within the PHG create headroom of £0.7m by 2019/20 as follows:

	2017/18	2018/19	2019/20
	£'000	£'000	£'000
Total Spend	19.8	19.5	19.4
Forecast grant	21.3	20.7	20.1
Difference = Headroom	1.5	1.2	0.7

40. It is envisaged that this headroom can be used to fund services that are currently funded by the General Fund and that meet the criteria for use of the grant and support wider Public Health initiatives. The proposed process is that Directorates identify such potential areas to be funded from PHG, that these will be reviewed by the Chief Officer (Health and Wellbeing) to ensure that they meet the grant criteria, and that the proposals be brought back to Cabinet in February and Council in March for final approval.

Human Resource Implications

41. Under Regulation 7 of the 2006 Compensation Regulations, employers are required to formulate, publish and keep under review arrangements which will apply to discretionary severance payments. Statutory minimum payments are calculated with regard to weekly earnings up to a maximum of £479 and age / length of service. The Council currently uses its discretion to waive the £479 cap, and apply a multiplier of 1.5 to the amount calculated in accordance with the statutory formula.
42. Due to the current financial pressures facing the Council, these arrangements have been reviewed. It is proposed that from 1st January 2017 the statutory cap of £479 is applied, and that the multiplier is reduced from 1.5 to 1.25.
43. The Council's Managing Employees at Risk of Redundancy (MEARR) policy and associated procedures have also been reviewed. The main proposed changes, to come into effect from 1st January 2017, are as follows:
- The current process is volunteer-driven with selection for compulsory redundancy only taking place when there are insufficient volunteers (and selection for voluntary redundancy taking place when there is an excess of volunteers). It is proposed to create selection pools, consisting of both volunteers and those who wish to remain in employment, in all redundancy situations other than the redundancy of a unique post.
 - The current process for selection for redundancy only takes account of severance cost as a tie-breaker when the weighted assessment of all other criteria leads to an equal result. It is proposed to include severance cost as a criterion in its own right as part of an overall assessment driven by business needs. It is proposed that severance cost for this purpose includes the cost of pension strain payable to the West Midlands Pension Fund for those employees who would have access to their pension as a result of being made redundant.
 - It is proposed to create a standard set of criteria for selection for redundancy with the lowest scoring member(s) of the pool being selected for redundancy.
 - It is proposed to assign mandatory weightings to these criteria as follows: requirements of the role (40%); attendance and conduct/capability (20%); severance cost (40%).
 - It is proposed that the 40% assigned to severance cost is broken down as follows: 30% for the payback period (i.e. the length of time it takes for salary savings to match severance cost including the cost of pension strain); a weighting of 10% for those who have not volunteered for redundancy (meaning that volunteers will be selected by preference in circumstances where the scoring of all other criteria gives a relatively close result).

- The current process allows for redundancy “bumping” whereby an employee who is at risk of compulsory redundancy may move into the post of an individual who has volunteered for redundancy, subject to being assessed as having the required qualifications, skills, knowledge and experience which would require minimal training/development whilst ensuring costs have been accounted for. It is proposed to retain this flexibility, subject to a selection process using the same criteria and weightings as those set out above (i.e. “bumping” would only take place where the volunteer has a lower score than the person at risk of redundancy).
44. The government has consulted on a number of proposed changes to regulations at a national level concerning termination benefits, but the full detail of all the changes and when they will be implemented is not yet clear. We will report back on the implications in due course.
45. Redundancy costs required to achieve the proposed savings, including those relating to pension strain, are dependent on the proportion of savings to be met from staffing reductions and the age and length of service of the individuals being made redundant, and therefore cannot be precisely calculated at this stage. In addition to provision of £4.3m in the current year (see paragraph 12) a further £2.5m has been provided for in 2017/18, and £0.7m in 2018/19. These are estimates based on previous trends and the proportion of savings likely to come from staff reductions and reflect the proposed changes to the redundancy scheme set out above.
46. It is proposed to recommend to Council the delegation for approval of voluntary and compulsory redundancies to the Cabinet Member for Corporate Transformation and Performance and the Chief Officer for Transformation and Performance up to the maximum provided for in the budget forecasts for direct redundancy costs and the capitalised cost of pension strain in respect of redundancies.

Medium Term Financial Strategy

47. The MTFS reflecting the revised spending proposals set out above, and forecasts of likely resource availability can be summarised as follows.

	2017/18 £m	2018/19 £m	2019/20 £m
Base Budget Forecast	230.5	243.2	245.6
- see para 33			
Pressures	2.5	5.0	10.2
- see para 35			
Savings	-18.4	-23.2	-24.5
- see para 37			
Public Health Grant funding	-0.7	-0.7	-0.7
- see para 39			
Redundancy costs	2.5	0.8	-
- see para 45			
Total Service Spend	216.4	225.1	230.6
Revenue Support Grant (RSG)	33.2	25.4	17.5
Retained Business Rates	47.2	48.2	48.9
Top-Up Grant	15.6	16.1	16.6
Business Rate Grant	2.8	2.9	3.0
New Homes Bonus	5.6	3.5	3.4
New Better Care Fund	1.2	7.2	12.4
Collection Fund Surplus – Council Tax	1.0		
Collection Fund Deficit – Business Rates	-0.7		
Council Tax	109.0	114.3	119.8
Total Resources	214.9	217.6	221.6
Deficit funded from Balances	1.5	7.5	9.0
Balances brought forward	16.0	14.5	7.0
Balances carried forward	14.5	7.0	n/a

48. The table above assumes that Council Tax, including the Social Care Precept, increases by just under 4% for each year of the MTFS. Based on current referendum limits, this would not require a referendum in accordance with Chapter 4ZA of Part 1 of the Local Government Finance Act 1992.
49. Based on the resource forecasts, pressures and savings proposals set out above, balances will be sufficient to fund the deficit until the end of 2018/19. Action is still required to address the forecast deficit rising to £9.0m by 2019/20 and to ensure prudent balances are maintained.
50. The Council has previously identified a number of transformation initiatives to address its financial challenges. Work is ongoing in relation to a number of these, including:
- Digital Platform – implementation of a new digital customer services platform to deliver additional savings through better management of customer contact, self-service and automation of end to end processes.

- One Public Estate – an exercise to identify additional savings and/or generate additional income to the Council by reducing the size of the operational estate, focussing on a number of community hubs, sharing buildings with partners and releasing sites for regeneration.
- Strategic Review of Car Parks – to review the provision of car parks, the requirement for on and off street parking and the contribution to regeneration and traffic management.
- Leisure Centre Review – a review of provision and appraisal of options to meet the need for leisure facilities with a view to removing or substantially reducing the level of subsidy from local taxpayers.

In addition to the above initiatives, directorates will continue to review budgets to identify additional savings that can be implemented from 2017/18 including, where relevant, other alternative delivery models.

51. With regard to the Digital Platform initiative, up to 2018/19 Councils have the flexibility to “capitalise” transformation costs and fund them from new capital receipts (other than those from Right to Buy disposals). When setting the Council Tax and approving the Medium Term Financial Strategy at its meeting on 29th February, Council agreed a provisional budget of £2m for a Digital Platform as an “invest to save” programme. It was anticipated that it would be possible to take advantage of the flexibility to capitalise and fund these costs from disposal of sites that are already vacant over and above those needed to fund the existing capital programme. This was subject to confirming availability of such receipts, and on the detail of the awaited final government guidance on capitalisation.
52. Final government guidance on capitalisation has now been received, which includes a requirement to produce a Flexible use of Capital Receipts Strategy in order to utilise the flexibility. The Strategy sets out brief details of the relevant projects. For future years the Strategy will include commentary on whether planned savings or service transformation from projects approved in previous years have been / are being realised in line with the initial analysis. It is proposed that the Flexible use of Capital Receipts Strategy as set out in Appendix E, which includes all the details required by the guidance, be approved.

Estimates, Assumptions & Risk Analysis

53. The proposals in this report are based on a number of estimates, assumptions and professional judgements, which are subject to continuous review. These may lead to further increases in expenditure and, therefore, the need to identify alternative funding sources, and include:
- (a) Revenue Support Grant for 2017/18 – 2019/20 is in line with Government indications.
 - (b) income from Business Rates (net of appeals etc.), including the impact of the revaluation will be in line with current forecasts;
 - (c) the cost of Council Tax Reduction awarded will not substantially exceed forecasts, and the tax base will continue to grow as anticipated;
 - (d) New Homes Bonus funding is in line with Government indications.

- (e) Unequal Pay Back Pay costs are no more than estimated;
- (f) pay inflation and interest rates do not vary materially from current forecasts;
- (g) cash limited non-pay budgets will be managed so as to absorb any price inflation not specifically provided for;
- (h) income and expenditure relating to treasury management activity are in line with forecasts;
- (i) there will be no other unplanned expenditure (including any resulting from demographic pressures) or shortfalls in income, which cannot be met from reserves;
- (j) there will be no changes to government policy on maximum underlying Council Tax increases without the need for a referendum;
- (k) New Better Care Funding is unfettered and received directly by the Council as anticipated;
- (l) the Adult Social Care market is able to absorb National Living Wage pressures within the proposed provision;
- (m) any monitoring requirements in respect of use of the Social Care Precept are satisfied;
- (n) that employer contributions to the Local Government Pension Scheme (LGPS) for 2017/18 – 2019/20 are in line with those projected forward from the results of the last triennial actuarial review in 2013 (subject to the 2016 triennial review which is still under way);
- (o) transitional protection and reduced spending on funded services will be sufficient to match any reduction in ESG .

Consultation

54. Following the high profile and extensive Big Question budget consultations held over the previous four years more than 15,000 residents have taken part to have their say. Through this engagement, a significant number of residents are now subscribed to the council's e-bulletin service and to minimise costs, for the last two years, the consultation has been carried out predominantly online through the e-bulletin service, website and social media. The proposal for this year's consultation is to again utilise the successful online channels of the e-bulletin, internet and social media. We will again also make hard copy, printed versions available in borough libraries and Dudley Council Plus and also consult with existing community networks such as the Children and Young People's Alliance. Scrutiny committee meetings will also be held during the consultation period which will run through November, December and January.
55. Detailed consultation will also be undertaken with groups identified as being potentially affected by the specific savings proposals, with a particular emphasis on equalities issues. Further information is set out in the Equality Impact section below.

56. Trade unions will be consulted regarding the proposed changes to the current collective agreements, and negotiations will be entered into regarding the proposed changes to terms and conditions of employment. Trade unions will also be consulted on the revisions to the Managing Employees at Risk of Redundancy (MEARR) Policy. The decisions concerning changes to the discretionary severance provisions are not subject to negotiation with trade unions, however discussions on these proposed changes will take place as a matter of good working relations.
57. A consultation document will be distributed to representatives of Non-Domestic Ratepayers setting out the provisional budget proposals in this report. Consultees will be offered the opportunity for a meeting to be held if there is sufficient interest. Further detailed information (as required in pursuance of the statutory duty to consult) will be distributed in February for comment before the Council Tax setting meeting.
58. In accordance with the Council's Constitution, the Scrutiny Committees will be asked to consider the issues set out in this report and any related specific issues relevant to their Council Plan and service responsibilities in the November cycle. In framing their responses, the Scrutiny Committees will be asked to consider both the spending and funding implications (including the impact on Council Tax) of any observations they may wish to make.

Finance

59. This report is financial in nature and relevant information is contained within the body of the report.

Law

60. The Council's budget setting process is governed by the Local Government Finance Acts 1988, 1992, and 2012 and the Local Government Act 2003.
61. The Local Government Act 2003 requires the Chief Financial Officer to report on the robustness of estimates made for the purpose of final budget calculations, and the adequacy of the proposed financial reserves and this will be included in the final budget report.
62. The Localism Act 2011 introduced a new chapter into the Local Government Finance Act 1992 making provision for council tax referendums to be held if an authority increases its council tax by an amount exceeding principles determined by the Secretary of State and agreed by the House of Commons.
63. The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 are designed to enable a local authority to compensate employees whose employment terminates on grounds of redundancy or in the interests of the efficient exercise of the authority's functions. Any local arrangements in place must also be compliant with the Employment Rights Act 1996 and the Equality Act 2010 (to which the Council needs to direct its mind when assessing its discretionary payments scheme).

Equality Impact

64. Section 149 of the Equality Act 2010 - the general public sector equality duty - requires public authorities, including the Council, to have due regard to the need to:
- eliminate discrimination, harassment and victimisation and other conduct that is prohibited by the Act;
 - advance equality of opportunity between people who share a protected characteristic and those who don't;
 - foster good relations between people who share a protected characteristic and those who don't.
65. Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:
- remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic
 - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it
 - encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
66. The legislation states that "the steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities." In practice, this means that reasonable adjustments should be made for disabled people so that they can access a service or fulfil employment duties, or perhaps a choice of an additional service for disabled people is offered as an alternative to a mainstream service.
67. Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:
- tackle prejudice, and
 - promote understanding.
68. Compliance with the duties in this section may involve treating some persons more favourably than others; but that is not to be taken as permitting conduct that would otherwise be prohibited by or under this Act.

The duty covers the protected characteristics of age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

69. An initial assessment of the budget proposals has been made. Where proposals are likely to have a significant equality impact, they will undergo an equality impact assessment informed by consultation with the protected groups who may be adversely affected, during the autumn. The results of this process and any steps which emerge that might help to mitigate any potential impact of the budget proposals on the protected groups will be reported to Members so that they can pay due regard to the Public Sector Equality Duty in making decisions on the budget. In making decisions on budget proposals, Members will need to weigh the Public Sector Equality Duty against the forecast financial position, risks and uncertainties set out in this report.
70. With regard to Children and Young People, a substantial element of the proposed budget for the People Directorate will be spent on maintaining and improving services for children and young people. The expenditure of other Directorates' budgets will also have a significant impact on this group.

Recommendations

71. That Cabinet notes:
- (a) The actions of the External Auditors as set out in paragraphs 5 and 6.
 - (b) The forecast variances to budget in 2016/17 set out in paragraphs 7 to 13.
 - (c) The submission of interest in accepting a guaranteed minimum level of funding up to 2019/20, as set out in paragraph 16.
 - (d) The current and potential future funding arrangements for the CA as set out in paragraphs 29 to 32.
 - (e) The various issues and risks which will need to be taken into account in finalising Budget proposals for 2017/18, and the Medium Term Financial Strategy.
72. That Cabinet approves:
- (a) The preliminary financial strategy outlined in this report as a basis for scrutiny and consultation.
 - (b) The proposed process to identify services to be funded from PHG, as set out in paragraph 40.
 - (c) The revised arrangements for discretionary severance payments (as set out in paragraph 42) and the proposed changes to the MEARR Policy and associated procedures (as set out in paragraph 43), as a basis for consultation with unions, prior to a final decision by Decision Sheet of the Chief Officer, Transformation and Performance in consultation with the Cabinet Member and Opposition Spokespersons for Transformation and Performance, by no later than 30th November.

73. That Cabinet recommends to Council:

- (a) That after considering the outcomes of the consultation, member scrutiny, the equality impact assessment and the Council's financial position, "Option 2" be approved as a change to the Council Tax Reduction (CTR) scheme for 2017/18, this option being an increase in the minimum payment of Council tax from 20% to 22%.
- (b) That the proposal to document the CTR scheme in such a manner that any personal allowances, premiums, disregards and non-dependent deductions are automatically linked to equivalent annually up-rated values published by central government in either Housing Benefit Legislation or the prescribed Council Tax Reduction Scheme for pensioners (including any other miscellaneous amendments to the aforementioned legislation that are relevant to our local scheme) be approved, thus allowing any approved scheme locally to be automatically carried forward to future years, without the need for annual public consultation and re-approval, until such time that further scheme changes are considered.
- (c) The delegation for approval of voluntary and compulsory redundancies to the Cabinet Member for Corporate Transformation and Performance and the Chief Officer for Transformation and Performance up to the maximum of provided for in the budget forecasts for direct redundancy costs and the capitalised cost of pension strain in respect of redundancies required to achieve the proposed savings set out in this report.
- (d) That the initial Flexible use of Capital Receipts Strategy be approved, as set out in Appendix E.



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Chief Executive

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List of Background Papers

Budget and Council Tax setting 2016/17 report to Council, 29th February 2016

Revenue Outturn 2015/16 report to Cabinet, 29th June 2016

Local Government Finance Settlement 2016/17 – including indicative figures to 2019/20

2016/17 Forecast Outturn position

	Latest Budget £'m	Latest Outturn £'m	Variance £'m	Comment
Chief Social Worker	0.8	0.8	0.0	
Lead for Education Outcomes	-3.0	-3.1	-0.1	
Adult Social Care	96.3	93.1	-3.2	Within Whole Life Disability Services there is a forecast favourable variance of £0.7m, resulting mainly from lower than budgeted numbers of service users along with a move towards more supported living rather than bed based care. Within Assessment and Independence there is a forecast favourable variance of £2.5m resulting mainly from higher than budgeted Better Care Fund income and funding for winter pressures
Integrated Commissioning, Performance and Partnerships	8.3	8.4	0.1	
Children's Services	66.6	67.4	0.8	This is mainly resulting from the major redesign of Children services in respect of the Social Worker Delivery Model, as detailed in the 'Help Shape the Future' - Children Services Modernisation and Investment Plan report to the Cabinet meeting on 26th May 2016, and relates to the additional cost of recruiting agency social worker cover until such time as the permanent establishment is fully recruited
Health and Wellbeing	8.5	8.4	-0.1	
Total People	177.5	175.0	-2.5	
Environmental Services	43.0	42.8	-0.2	There are increased incineration costs of £0.3m. This is offset by reduced vehicle financing costs £0.1m and vacancies £0.4m
Planning and Economic Development	8.8	9.3	0.5	Main pressure relates to non achievement of income targets within Landscape services £0.3m.
Housing	2.6	2.6	0.0	
Target savings	0.0	-0.3	-0.3	Targets to achieve a balanced outturn
Total Place	54.4	54.4	0.0	
Transformation and Performance	1.1	1.1	0.0	
Finance and Legal Services	5.3	4.8	-0.5	Additional forecast Land charge income £0.1m, Benefits Subsidy Surplus £0.3m
Levy etc	16.0	16.0	0.0	
Total Chief Executive	22.4	21.9	-0.5	
Treasury	-21.4	-22.3	-0.9	Reduced provision for severance costs £0.8m. Reduced borrowing requirement and interest rates factored in for last quarter £0.1m.
Grand Total	232.9	229.0	-3.9	

Localised Council Tax Reduction Scheme 2017/18 – Consultation results

The options initially considered by Cabinet on 20th July were:

Option 1

Continue with the current scheme (20% minimum payment of council tax with no protected groups other than statutory protection of pensioners).

Option 2

Increase the cut in CTR from 20% to 22% - £217,000 additional income (of which real net gain to Council £152,000 allowing for collection losses and share to Police and Fire).

Option 3

Increase the cut in CTR from 20% to 25% - £542,000 additional income (of which real gain £379,000).

Consultation concluded on 16th October with the following questionnaire results:

As at 20/10/16	Strongly agree	Agree	Disagree	Strongly disagree
Option 1 (20%)	108	36	57	85
Option 2 (22%)	38	60	68	113
Option 3 (25%)	102	24	52	102

Additionally, the following responses were received from preceptors.

Police:

I confirm receipt of the consultation on the Council Tax Reduction Scheme in Dudley and have no specific comments.

Fire:

The options provided in the document you forwarded affect some of the most vulnerable members of the community. Unfortunately, these people are often those at most risk from fire related incidents and so for the modest amounts of additional funding the Fire Authority would receive from options 2 & 3, given that both of these would further increase the financial pressures on these households, of the 3 options proposed, Option 1 would offer the best balance given the competing pressures when determining the CTR arrangements.

However, I'm not sure whether it would be possible to increase the cut in CTR to some or all of the non-protected groups along the lines adopted in 2014/15 and/or 2015/16 but this is not an option you have highlighted as being a consideration.

Appendix C

Spending Pressures

People	2017/18 £'000	2018/19 £'000	2019/20 £'000
Living wage Residential care providers	912	1,842	2,791
Living wage care at home providers	0	550	1,112
Living wage Direct payments	51	63	75
Older people (dementia)	539	1,078	1,617
Living wage Sleep-ins	38	75	113
Additional responsibilities in relation to the Care Act.	0	0	2,736
Children's Services Internal Fostering Fees	105	213	321
Education Outcomes - Existing Premature Retirement costs	39	79	119
Total	1,684	3,900	8,884

Place	2017/18 £'000	2018/19 £'000	2019/20 £'000
Waste Disposal - Collected Residual Waste Tonnage increase, contractual uplift to Gate Fee prices plus Landfill Tax price increase, pressures regarding Recyclate Commodity prices.	501	708	925
Landscape Services - remove unachievable income targets as a result of fewer externally funded projects.	250	250	250
Impact of National Living Wage on outsourced Cleaning Contract for Admin Buildings	31	71	111
Weeds - reintroduce additional weed spraying from 1 to 2 per year.	70	70	70
Total	852	1,099	1,356

Proposed Savings

People	2017/18 £'000	2018/19 £'000	2019/20 £'000
Increase the investment in preventative services to support adult social care client carers, focusing on the high risk caring relationships, in order to reduce or mitigate admissions to residential and nursing care with the aim of overall service savings.	0	67	376
Target interventions to people most at risk of falls to make people safe and prevent high cost social care and primary care interventions.	0	117	376
Managing Money - Implement a system of paying direct payments net of any welfare benefit entitlements to service users for adult social care.	35	35	35
Managing Money - Implement a net payment process, to exclude the client contribution, to residential service providers for adult social care clients to prevent the risk of debt accumulation to the Council.	187	187	187
Managing Money - Review the under utilisation of Direct Payments in respect of care package at an earlier interval than the current level of 39 weeks to 13 weeks.	92	92	92
Managing Money – Integrate functions involved in assessing and managing financial contributions and payments for clients in order to produce service efficiencies.	0	140	140
Managing Money - Increase funding collected from financial assessments of adult social care clients.	935	759	759
Assessment & Review - Implement outcome based commissioning and assessments for all community-based adult social care packages costing more than £500 per week to provide services efficiencies.	839	1,185	1,348
Assessment & Review - Review all residential and nursing care packages for working age adults costing over £500 per weeks with a particular focus on identifying whether individual needs can be met within the current setting more effectively and economically.	273	400	400
Assessment & Review - Review the S117 policy.	443	687	851
Shared Lives - Expansion of the Shared Lives service in respect of adult fostering scheme to achieve additional shared lived placements, enabling more people to be able to continue to live in the community, with independence of public services maximised	151	371	621

People	2017/18 £'000	2018/19 £'000	2019/20 £'000
In March 2016, the Council approved an extensive programme of additional revenue funding rising from £11m in 2016/17 to £22m by 2019/20 in respect of Adult Social Care pressures in relation to care packages and demographic changes. As a consequence of stronger management oversight, external challenge, smarter business process and income generation the sector has identified a recurrent forecast saving of £1m.	1,000	1,000	1,000
Alignment of contract prices at New Bradley Hall with market conditions.	0	354	354
Reprovision of long term residential care and reablement at Russell Court	500	500	500
Review the scope, capacity and efficiency of the Dementia Gateway service with reduced operating costs and a rationalisation to enable two Gateway Services to be retained.	443	443	443
Review efficiency, effectiveness and investment in supporting people and voluntary sector commissioned services.	2,068	2,068	2,068
Removal of grant funding for Centre for Equality and Diversity (CFED)	20	20	20
Alternative Delivery Model for Library and Archive Services	632	632	632
Smarten the commissioning arrangements in the People Services Directorate.	90	90	90
Redesign and integrate the service delivery model for Environmental Health and Trading Services.	137	137	137
Increase existing fees and introduce a wide range of new charges for Environmental Health services.	35	35	35
Generate additional surplus traded service income.	61	61	61
Service efficiencies in respect of the Educational Psychology service.	24	24	24
Restructure the integrated youth support service.	200	200	200
Realign the voluntary and community sector commissioning budget.	40	40	40
Establish savings through an integrated service approach to the Whole Life Disability service to be achieved as part of the People Services Directorate revised structure.	70	70	70
Redesign the Education Outcomes division to achieve efficiencies and improve outcomes.	46	46	46
Integrate service arrangements for the Teenage Pregnancy programme with Social Care and Public Health.	134	134	134

People	2017/18 £'000	2018/19 £'000	2019/20 £'000
Develop a more integrated approach for children and young people in the area of safeguarding and early help to include Children Centres.	1,264	1,264	1,264
Redesign the early help offer for Dudley to prevent children escalating to becoming looked after.	2,000	2,000	2,000
Total	11,719	13,158	14,303

People - Savings from Public Health Grant funded areas	2017/18 £'000	2018/19 £'000	2019/20 £'000
Public Health Organisational Efficiencies will be achieved from a departmental restructure with a reduction in posts and a reduction in the behaviour change campaign and social research programmes.	804	804	804
NHS health checks will be changed to a targeted delivery model to focus more on those at risk of a long term health condition.	0	100	100
Review and seek to alternative third sector delivery models for Community Development services, (across whole council) and the Park Activator Services.	10	130	130
Decommission the current provider of the domiciliary immunisation service and embed delivery into the health visiting service to achieve efficiencies.	37	37	37
Review of public health services for Children and Young People to decommission the oral health promotion contract and embed delivery into health visiting and school nursing services. Contract efficiencies will be applied to the health visiting/family nurse partnership contract and cost efficiencies applied to the school nursing contract. Decommissioning of a specialist public health midwife post in Dudley Group Foundation Trust (DGFT) as this is now covered by a quality incentive scheme on the main Clinical Commissioning Group contract with DGFT.	330	330	330
Review of the substance misuse services to achieve contract efficiencies on blood borne virus, specialist midwife contracts and a reduction in alcohol health improvement programme through targeted services. This is not a statutory service.	143	143	143
Restructure of Public Health management and staffing posts	18	18	18
Review investment efficiencies in Public Health commissioning arrangements.	905	919	919
Total	2,247	2,481	2,481

Place	2017/18 £000	2018/19 £000	2019/20 £'000
Dimming on Residential roads to 60% between 11am to 5am plus Invest to Save on Main Road Lighting	140	290	290
Reduce maintenance regime in parks, reduce grass cutting in closed churchyards and start a programme of green space asset disposal, resulting in reduced maintenance. Gain sponsorship to maintain floral displays on traffic islands etc, increase Parks and Open Spaces fees and charges by 20%, increase Countryside Services income, cease maintaining Bowling Greens and cease maintaining land not owned by the Council.	237	277	277
Opportunities for further income generation in Parks, Countryside Services and Open Spaces, e.g. corporate events, activity courses, sponsorship and new parking charges etc.	0	93	93
Efficiency savings for the General Fund as a result of the review of Stores and Depots.	124	124	124
Private sector litter enforcement	0	50	50
Street maintenance: issue highway permits	0	500	500
Vehicle procurement savings and efficiencies for Fleet and Transport	168	168	168
Closure of public conveniences based upon use and condition	25	25	25
Ensuring efficient highway maintenance service by streamlining pothole repair process and focussing carriageway re-surfacing on strategic highway network	20	310	310
Undertake review of current winter service provision in order to ensure key strategic routes are treated as required while ensuring best value is delivered in provision of the service. Number of gritting vehicles and provision of grit bins to be rationalised.	55	105	105
Increase of Car Parking Charges	10	260	260
School Crossing Patrols - replace current Council Funded crossing service with one that is externally funded	375	395	395
One Public Estate - savings from ending leases	133	583	583
Corporate Landlord: reorganisation of structures, processes, procurement and use of alternative capital delivery models plus extended income streams.	537	557	557
Leisure Centres staffing rationalisation	338	338	338

Place	2017/18 £000	2018/19 £000	2019/20 £'000
Staff rationalisation and selling professional Planning services to other Local Authorities.	118	118	118
Directorate efficiencies - Reviewing staffing requirements.	90	90	90
Review of events programme and associated land and building assets in order to deliver self financing service by 2019	55	260	260
Review use of halls borough wide in order to achieve self financing status. Closure of Dudley Museum with collection transferred to alternative premises for permanent display. Review opening hours at Red House. Engage with potential partner organisations regarding provision at Ward House in order to support events at Himley Hall	150	724	724
Maximising efficiency in Bereavement Service. Review charging policy and implement a package of measures in order to maximise take up of the service while providing high quality bereavement services across the borough.	210	456	456
Staffing savings within Adult Community Learning Service	83	83	83
Reduce grant to Dudley Zoo from £250,000 to £150,000	100	100	100
Ensure that HRA contribution to General Fund services is appropriate by reviewing contribution towards development of cross tenure housing strategy policy and team and rationalise grant assistance to CAB while maintaining cross tenure housing advice service.	25	25	25
Total	2,993	5,931	5,931

Chief Executives	2017/18 £'000	2018/19 £'000	2019/20 £'000
Benefits - budget adjustment to fully reflect benefit subsidy and the recovery of benefits overpayments.	340	340	340
Financial Services - staff savings. The first stage of savings would be realised following a review of processes so that non-core and transactional activity is minimised. The second stage will result improved functionality of the Council's new People Information Management System (PIMS) leading to efficiencies in the budget monitoring process. The third stage would be to increase management ownership of budgets and reduce the level of reliance on the Finance service.	60	250	425
Apply a fine to customers who receive a council tax discount but fail to notify us of a change in their circumstances.	25	25	25
Audit Services - staff savings through rationalisation of audit work in line with key risks.	32	32	32
Local Welfare Assistance - alternative service delivery approach via the Citizens Advice Bureau and the Credit Union	100	100	100
ICT – reductions in staffing, software and hardware costs made possible by increased automation and self-service, stream-lining of processes, server virtualisation, use of open source software, reduced maintenance following investment in infrastructure and further consolidation including pursuit of shared service opportunities.	1082	1090	1090
Combined Scanning Operations and Incoming Post : Council-wide saving	25	25	25
Digital Mailroom (myMail/e-post room) : Council-wide saving	96	96	96
Multi Functional Devices (MFD) - Rationalisation and reduction: Council-wide saving	20	50	50
Reduction and control of printing: Council-wide saving	50	50	50
Removal of all documents from Offsite Storage and an embargo on future use of such facilities: Council-wide saving	0	27	27
HR Services - Staffing savings together with some reduction in general service overheads following service review, to focus on strategic HR business partnering, and further reductions in non-core and transactional activities. Efficiencies will be delivered following implementation of a new HR/Payroll system alongside an increase in employee/manager self service.	230	310	310

Chief Executives	2017/18 £'000	2018/19 £'000	2019/20 £'000
HR Services - Increased scope for income from traded services across HR operation.)	20	20	20
Cease funding of Staff car parking passes	100	100	100
Remodelled Communications & Public Affairs and Civic support and increased Graphic Design income generation, as well as self-financing Town Centre Events (e.g. Christmas) through income generation.	64	102	102
Total	2,244	2,617	2,792

Terms and Conditions	2017/18 £'000	2018/19 £'000	2019/20 £,000
Set a target to achieve savings of £1.5m from a review of staff terms and conditions. Initial options for consideration are: <ul style="list-style-type: none"> • Reduce main Car Mileage rate from 55p to 45p per mile in accordance with HMRC allowance; • Introduce 5 days of unpaid additional leave at times to be determined by the employer. Negotiation with the unions may identify alternative ways to achieve the same level of target savings.	1,500	1,500	1,500
Total	1,500	1,500	1,500

Initial Flexible use of Capital Receipts Strategy

Project(s) planning to make use of flexibility

Digital Platform Solution, which will include replacement of the current Customer Relationship Management (CRM) system, as an ICT “invest to save” programme. This will include the costs of software, support and maintenance, and consultancy services, although depending upon the products selected, further costs may be incurred, including hardware, operating and database software, systems interfaces and officer time.

Expected Savings / Service Transformation

The digital platform will modernise customer contact by delivery of a more tailored and personalised approach to service access and transactional processes. Successful implementation will improve business intelligence via a single view of the citizen and significantly enhance self-service facilities and end-to-end service automation, thus enabling financial savings (estimated £1m per annum), improved customer service and cultural shift within the Council.

Impact on Prudential Indicators

The total project cost of £2m is estimated to be spent £1m in 2016/17 and £1m in 2017/18. The “Estimated Capital Expenditure” indicator for the relevant years will therefore increase accordingly. There is no impact on any of the other indicators.

The Strategy will be updated annually and/or when further initiatives to use the flexibility are developed.