

## SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

**REPORT TO:** Leader and Cabinet

13<sup>th</sup> October 2005

**AUTHOR/S:** Management Team

### REDUCTIONS PROPOSED TO MEET CAPPING

#### Purpose

1. To set out the reductions in budgets proposed to meet the capping requirement of £2.6 million and their service implications for 2005/06 and 2006/07.

#### Effect on Corporate Objectives

2.	Quality, Accessible Services	Every effort has been made to minimise impact on services to customers and the community generally, especially for high priority services, but some loss of performance in respect of all the corporate objectives is virtually inescapable.
	Village Life	
	Sustainability	
	Partnership	

#### Background

3. South Cambridgeshire's council tax was capped at £92.93 in 2005/06 for a Band D property. In order to achieve a sustainable relationship between overall spending and income, the base budget must be reduced permanently by £2.6 million. This is in addition to the spending reductions already written into the Medium Term Financial Strategy to meet Gershon efficiency saving requirements and the strategy for reducing reliance on use of balances to keep down the level of council tax.
4. Cabinet on 8<sup>th</sup> September 2005 endorsed a targeted approach to the budget reductions reflecting the priority category of each activity. Reductions of 5%, 10%, 20% or 40% were targeted for services grouped into priority categories 1 to 4 respectively. As a result, it was possible to develop total savings targets for each portfolio reflecting the mix of priority activities in each portfolio. The list of activities (or cost centres) is shown at **Appendix 8**. Setting the targets at portfolio level provided some flexibility for the portfolio holder to take account of practical considerations in deciding how the reductions could be achieved.
5. The Council is starting from a low spending base with service spending per head of population already amongst the lowest nationally. From Audit Commission data, this council falls below position 200 out of 238 district councils for spending (per head) in 6 out of 9 areas of service spending. Indeed, only Planning and Community Housing spending ranks above the lowest quartile. Given this low starting, it is important for the Council to try and retain the range of skills within the organisation. Otherwise the impact on service delivery is likely to be greater. This principle has been kept in mind as Portfolio holders have worked with relevant directors and service heads to bring forward proposals for meeting the reductions targets agreed by Cabinet. In doing so, a number of factors have been considered. These factors were included in the report to Cabinet in September but are repeated here as a reminder of the approach.
  - a. Opportunities for increasing existing or generating new income.

- b. If the necessary cuts in staffing levels can be achieved by natural wastage (e.g. deleting vacant posts), the redundancy cost to the Council are reduced.
  - c. The service impacts of the reductions being considered.
  - d. The corporate impacts of the reductions being considered (e.g. will the cut in one service jeopardise an important priority in another or corporately?)
  - e. The impact on key partnerships.
  - f. Whether other organisations (e.g. other councils, the voluntary sector etc) could assist in performing the service thereby reducing the overall cost.
  - g. The need for reductions to be permanent, i.e. annual savings rather than one year only.
6. The Council is capped in the current year but it has been recognised by Council that it would not be practicable to achieve the full £2.6 million reduction in the remaining part year. Council in July 2005 therefore set a target of achieving at least £1.3 million of reductions for the current year and the full reduction for 2006/07 onwards. Activity since the last meeting has focussed on the base budget for 2006/07. It is intended that the savings target for the current year will be achieved by those reduction proposals that can be implemented between now and March 2006 together with the spending restraint measures that have been in place since capping was announced.
7. The proposed budget reductions are set out in Appendices 1 – 7 under each portfolio and by each department within a portfolio. (See paragraph 24 for relevant appendix numbers)

### Considerations

8. Table 1 below summarises the savings proposals for 2005/06 and 2006/07 alongside the target reduction for each portfolio.

Table 1

Portfolio	05/06 Budget	Target Reduction	Proposals Total 05/06	Proposals Total 06/07
Resources & Staffing*	£ 2,191,030	£562,975	£278,143	£ 647,600
Information & Customer Services*	£ 1,745,050	£575,081	£397,100	£618,241
Environmental Health	£ 5,287,400	£420,367	£277,660	£421,330
Housing General Fund	£ 2,005,850	£182,500	£85,670	£182,450
Planning & Econ. Development	£ 4,225,880	£252,981	£242,979	£257,729
Conservation, Sustainability & Com. Plg.	£ 893,230	£134,327	£132,426	£136,282
Community Development	£ 1,916,880	£688,496	£327,480	£628,304
Unallocated	-£ 7,000			
Contingencies	£ 44,230			
Precautionary Items	£ 100,000			
	£ 18,402,550			
Saving from IT/Other Recharges/Overheads Reductions*		-£150,000 #		-£150,000 #
Grand Total Savings		£2,666,727	£1,741,458	£2,741,936

\* Savings to be achieved from IT/Other Recharges/Overhead Reductions have been built into

the targets for Resources & Staffing and Information & Customer Services Portfolios at £350,000 and £250,000 respectively.

# Represents the proportion of the IT/Other Recharges/Overhead Reductions that will benefit the Housing Revenue Account.

Appendices 1g, 1h and 2e relate to “Reserve List” items for potential savings amounting to £127,500 and £223,200 respectively. These have not been included in Table 1 above but have already been assumed as savings in the baseline against future savings requirements as referred to in paragraph 3 above.

## **Options**

9. The details of the proposed budget reductions are set out in the appendices. In some cases the practical consideration by portfolio holders and officers has identified savings in excess of the target. In theory this provides some limited options to choose from. In reality, however, the need for further savings to satisfy the Financial Strategy and Gershon requirements means that there is strong pressure to adopt the proposals in full.
10. Cabinet Members will recall the PriceWaterhouseCoopers (PWC) organisation review completed in 2002, which led to a reduction in the number of departments from five to four and was implemented substantially during 2003. The four-department structure was seen as a step towards ultimately an organisation based on “front and back office” principles and one that aligns with best practice in responding to the electronic government agenda. The PWC report recommended that the Council should consider such a change in 3 to 5 years and when the ICT and contact centre infrastructure was in place to support the streamlined structure.
11. We are now approaching the 3 to 5 year window. In addition, the capping pressures on spending indicate that the move to a more streamlined management structure should be considered in order to build in further longer term reductions in overheads and recharges. The major programmes of IT systems replacement and setting up the contact centre have been substantially achieved. The expansion of services covered by the contact centre will continue with the aim of providing a comprehensive, best possible first-stop service to the customer. Work is ongoing to enable customer self-service through the Council’s improved web site. Further work is needed to re-engineer processes surrounding the IT systems so that the efficiency improvements from the technology can be maximised. All of these developments are key to the transition to a more streamlined structure.
12. The local government consultants, Mouchel Parkman, have been engaged to develop and advise on the business case for moving to the front and back office model sooner rather than later. We are calling this project the “Transformation Project”.

## **Financial Implications**

13. Generally the financial implications are set out in the appendices and summarised above in this report. However there is a related issue concerning the funding of redundancy and pension costs where posts are being lost.
14. At an earlier meeting, Members requested the Finance & Resources Director to explore the opportunities afforded under the Local Government Act 2003 whereby in exceptional circumstances permission may be forthcoming from the ODPM to capitalise redundancy and/or early retirement costs.

15. An initial response was received which stated that capping was “unlikely to be regarded as grounds for departing from the normal criteria“. Nonetheless, if the aggregate value of the redundancies and early retirements exceeded the criteria, permission may be granted.
16. If the Authority seeks to capitalise both redundancy and early retirement costs, it would need to make a separate application for each. Under the ‘affordability test’, capitalisation would be allowed only where costs exceed both 5% of available reserves and 0.25% of budgeted expenditure for the year in which the expenditure is incurred. This is based on the reserves and budget figures for the General Fund where the costs relate to non-housing staff. Where the costs fall within the HRA, the reserves and budget figures would be those for the HRA only. (NB Only *statutory* redundancy costs will be considered for capitalisation.)
17. Likely redundancy and early retirement costs arising from the £2.6m savings exercise do not exceed the stipulated thresholds. However, if there are redundancies and early retirement costs associated with the Transformation Project and these fall in the same financial year as those from the existing savings exercise then, subject to clarification, these may allow the Authority to qualify under the capitalisation rules.
18. Notwithstanding the above, the Authority may wish to reconsider an earlier policy decision concerning how reimbursement to the Pension Fund should be made in connection with any additional costs associated with early retirement. Cabinet at its meeting on 10 February 2005 agreed the reimbursement to be a single payment in the year the liability is incurred. Members will recall that the Audit Commission’s best practice recommendation is to spread the costs over no more than a 5 year period. Accordingly, it is now **recommended** that the Council commute these costs equally over 5 years, beginning with the year in which the liability is incurred.

### **Legal Implications**

19. Every effort has been made to ensure that the Council will still be able to fulfil its statutory responsibilities. The target reductions falling on the statutory services were less severe but still significant. Financial provision for exceptional events has been virtually eliminated therefore unexpected urgent situations may need to be funded by virement from another area of the budget or be a call on reserves in exceptional circumstances. In proceeding to implement the reductions, the Council must have regard to employment law and follow the procedures and policies in place within the Council.

### **Staffing Implications**

20. For the General Fund, at this stage, it is likely that a total of around 20 jobs will be lost under the above proposals. Of these, 9 can be achieved through natural wastage, e.g. by not filling vacancies, and about 11 look likely to be declared redundant. In addition, approx 30 posts will be lost in the Sheltered Housing service as a result of the need to reduce costs falling on the Housing Revenue Account. Approximately 10 of these are likely to be achieved by natural wastage. Whilst these Housing job losses are not the direct result of capping, £50,000 of the reductions in the Housing General Fund proposals are dependent on the changes to the Sheltered Housing Service being implemented.
21. It must be recognised that the reduction in staff resources available will mean that some areas of work will be discontinued as described in the appendices. It is inevitable that a degree of increased pressure will be felt by staff as a result of their

own wish to deliver and provide good services to the community. The demands on the organisation grow relentlessly in response to both the local agenda and Central Government's requirements. The general loss of capacity and cover coupled with the growing demands are likely to increase the risk of sickness absence due to work related stress. As a responsible employer, the Council will need to ensure that strategies are in place to manage the pressure.

### **Risk Management Implications**

22. Brief comments on the implications of each savings proposal are included in the appendices. In general, the reduced resources are likely to have an adverse impact on service performance as measured by national (best value) and local performance indicators. In turn, it will be more difficult to improve or even maintain the Council's rating under the Comprehensive Performance Assessment (CPA). This is especially likely given that the revised methodology for the next round of CPA is being described as "the harder test." A report on changes to CPA for the next round will be on the agenda for the November meeting of Cabinet.

### **Consultations**

23. Scrutiny Committee devoted its entire August meeting to the capping question and the minutes of that meeting are attached as **Appendix 9**. Consultations and briefings have been and are ongoing with staff and the two trade unions, UNISON and GMB. Partner organisations have been kept informed of developments since Capping was announced.

### **Conclusions/Summary**

24. Details of the proposals for each portfolio are set out in Appendices 1 – 7 as listed below.

Resources and Staffing	Appendix 1
Information & Customer Services	Appendix 2
Environmental Health	Appendix 3
Housing (General Fund)	Appendix 4
Planning & economic Development	Appendix 5
Conservation, Sustainability & Community Planning	Appendix 6
Community Development	Appendix 7

25. Both Members and Officers should be congratulated on their constructive, collaborative and innovative approach to this very difficult task. Whilst current indications are that a total of around 20 jobs (General fund) are to be lost from the organisation, a substantial proportion of them will be achieved by natural wastage resulting in a relatively small number of compulsory redundancies.

### **Recommendations**

26. Cabinet is recommended:
- a) to support the reductions proposals brought forward by portfolio holders and officers and in turn recommend them to Council as the basis for a revised budget for 2005/06 and the budget for 2006/07.
- b) that the policy in respect of any additional pension costs associated with early

retirement be amended to allow these costs to be spread equally over 5 years, beginning with the year in which the liability is incurred.

**Background Papers:** the following background papers were used in the preparation of this report: Budget Estimates Book 2005/06; Performance Plan 2005/06.

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