

Report for Decision

Report to Executive
16 September 2009

Item
9

Report of Chief Executive

Subject Medium Term Financial Strategy - proposed General Fund
efficiency savings

Purpose

To identify a range of efficiency and cost reduction options to the General Fund budget, in order to close the estimated £8m+ shortfall for 2010/11 in the City Council's medium term financial strategy.

Recommendations

Executive is asked to:

1. Note the current financial situation, and implications for the Council's Medium Term Financial Strategy
2. Agree to continue to lobby Government for a fair distribution of concessionary fares funding
3. Note the preparatory work done to benchmark current spending and develop a range of proposals for efficiency and savings
4. Endorse the vision and guiding principles for further work to develop a new Norwich City Council that will be fit for the future (Annex A to this report)
5. Agree the outline timetable for the overall efficiency and savings process (Annex B to this report)
6. Agree to implement a range of efficiency savings to the General Fund budget with immediate effect (Annex A to Part 2 report), and to amend the 2009/10 budget accordingly
7. Agree in principle to implement a range of General Fund efficiency and cost reduction proposals (Annex B to Part 2 report), and to commission further work and full consultation, as appropriate, before reaching a final decision as part of the budget setting process for 2010/11
8. Agree in principle to implement a further range of General Fund cost and service reduction proposals (Annex C to Part 2 report), and to commission work to further develop proposed new working arrangements and structures, before reaching a final decision in December that will form part of the budget setting process for 2010/11
9. Note that the proposed savings amount to approximately £7.2m, and that therefore further work is still needed to identify around £0.8m of further savings
10. Agree to a range of formal staffing consultation and dialogue with local people and stakeholders on the draft proposals prior to final decisions.
11. To note any proposals around shared services will be brought back to Executive for separate consideration.

12. To note that any savings identified as part of the relet of direct services contracts will be brought to Executive for consideration in November 2009.

Financial Consequences

The financial consequences of this report are significant. These are set out in detail in the Part 2 report. Due to the effects of recession and other factors beyond its control, the City Council needs to identify cost reductions of approximately £8m+ in its General Fund in order to balance its budget and achieve safe levels of reserves in 2010/11 and subsequent years.

The financial situation continues to change on a regular basis, and this uncertainty means that things could improve or deteriorate further. If the situation improves, then by identifying a range of potential savings options it may be possible to review and consider removing or deferring these as additional funding becomes available. If it deteriorates, this could mean that additional savings may also be needed in future years as pressure on the public purse tightens to respond to the recession.

This report recommends a range of savings and efficiency options for the General Fund budget. However, some of these proposed actions will also generate savings for the Housing Revenue Account.

Risk Assessment

The 2009-2011 period is expected to be a challenging period in terms of local government finance. The Council has therefore developed a comprehensive and radical improvement and efficiency programme, and the outcomes will affect all of the council's services. Although it is expected that the majority of cost reductions will be achieved from improved efficiency, the scale of the budget gap means that there are likely to be some impacts on services and to customers. It is therefore vital that the overall programme is effectively managed, and that proposed service and structural changes are fully risk assessed and prioritised in dialogue with residents and stakeholders.

Strategic Priority and Outcome/Service Priorities

The report helps to meet the strategic priority "Aiming for excellence – ensuring the Council is efficient in its use of resources, is effective in delivering its plans, is a good employer and communicates effectively with its customers, staff and partners".

Executive Member: Councillor Waters - Corporate Resources and Governance

Wards: All

Contact Officers

Laura McGillivray, Chief Executive
Paul Spencer, Director of Transformation

01603 212001
01603 212994

Report

Background

1. The economic downturn over the last 12 month period has been very tough for the country overall, as well as organisations, families and individuals. Local government has not been exempt from this, and Norwich City Council has been badly hit. However, Norwich City Council recognised this was coming and has used reserves to smooth the process and plan a way forward. This leaves us in a stronger position to deal with these major problems.
2. The recession has hit the City Council in two ways – firstly, it has caused a significant reduction in income streams (e.g. reduced interest from investments, reduced income from planning and other fees etc), and secondly it has caused an increase in demand for particular services (e.g. council tax and housing benefits, housing and other community support). In addition, the City Council has been adversely affected by the impact of problems such as other national policy changes, particularly additional costs arising from concessionary bus fares and travel.
3. During such difficult times, local people often look to the Council to provide additional support, and to stimulate opportunities for recovery. Despite growing pressure on limited resources, the City Council has therefore continued to deliver a range of vital services, such as increased support for financial inclusion work, and has achieved a number of significant improvements in performance during the year. The key difference is that policy has been directed towards making a difference for people most affected by the recession.
4. Looking forward, the 2009-2011 period is likely to be even more challenging and uncertain for a number of reasons. Even if the recession improves, and some of the Council's income is restored, then it is anticipated that there will be a tightening of the public purse, arising from a need to control public spending in order to pay back investments made by national Government.

The local context

5. Most local authorities have been hit by the recession. However, due to a combination of factors beyond our control, we believe that Norwich City Council is now facing one of the largest financial challenges to its General Fund budget across the country. This is largely due to the fact that Norwich is a regional capital and so the concessionary bus fares have hit the Council harder than almost everywhere else.
6. Much of the impact is directly due to the recession, and its negative impact on interest levels and income. In the last few years the City Council has invested wisely, improved its financial management and had no money in Icelandic banks. This had enabled the Council to build up General Fund reserves of approximately £10m by mid 2008. Our investments created a good income stream which has been used to plough back into front-line service delivery. This was a healthy financial situation, and was underpinned by a rolling efficiency programme that

was able to deliver the annual 3% savings target.

7. Since mid 2008 things have changed dramatically, and at an incredible pace. As an urban council and regional capital, with a large asset portfolio and business focus, and a major daily influx of workers and visitors, the City Council has understandably been hit by the recession. Some of the adverse budget impacts arising from the recession include significant losses of annual income, the negative impact of financial policy changes, as well as normal annual inflationary costs. Overall, it is now estimated that the budget gap for 2010/11 onwards is approximately £8m.

The Medium Term Financial Strategy (MTFS)

8. The City Council's difficult General Fund financial position was recognised in the Council's Medium Term Financial Strategy (MTFS), which was agreed following the 2009/10 budget setting process in April 2009. Whilst that budget exercise already included approximately £4m of efficiencies and cost reductions, following feedback from local people, the Council also agreed to use a further £4.25m from reserves in order to balance the budget for 2009/10, which provided the opportunity to plan carefully for efficiencies and savings for the future.
9. This vital step has, however, now reduced reserves to a prudent but much lower level, and the Council now no longer has the option to use reserves again. Effectively therefore this use of reserves to balance the 2009/10 budget has bought time to develop a range of carefully planned proposals to close the £8m budget gap by April 2010.
10. Whilst this is already a significant gap, representing approximately 15% of the City Council's controllable spend, this may deteriorate further over the next few years. There are a number of risk areas:
 - Whilst interest rates may not decline further, there is a significant risk over Government grants for 2010/11. If they are reduced, this would add to our funding shortfall
 - A triennial review of pension costs may see a significant rise in employer's contributions
 - Possible redundancy costs arising from service changes as these need to be met from existing budgets
 - A further pending legal claim on concessionary fares costs.
11. It will also be vital to ensure that throughout this process we ensure that the Council maintains a safe level of General Fund reserves/balances, and indeed start to build these up again as soon as is reasonably practicable.

The Corporate Improvement and Efficiency Programme (CIEP)

12. In order to respond quickly to the emerging problems with the General Fund, immediately following the approval of the MTFS in April 2009 the Executive set up a corporate improvement and efficiency programme (CIEP) to support their work in asking officers to identify and deliver approximately £8m savings by April 2010. Savings of this scale cannot be achieved simply by trimming costs or by efficiencies alone, and it has been necessary to carry out a fundamental review of

what services the City Council provides, and the way the organisation works. The council's overall plans and priorities for the 2009-2011 period will need to be tempered to fit within the reducing resources that we expect to have.

13. Work on the CIEP has been progressing since the budget for 2009/10 was agreed in February 2009. Delivery of the programme is supported by a Corporate Improvement and Efficiency Board, which includes representatives from external organisations such as the Audit Commission, GO East, IDeA and Improvement East, who provide advice on best practice and challenge to our emerging efficiency and improvement ideas. Responsibility for decision making remains with the Executive.
14. A variety of different routes to develop a range of cost reduction options has been pursued over the last 3 months;
 - a. We have developed new proposals round our earlier unitary planning work to help shape services and neighbourhood working
 - b. Working with all senior managers to carry out "Zero Based Reviews" to examine the statutory/discretionary basis for services, and what options exist to reduce costs
 - c. Through a series of staff briefings/workshops, working with all managers and staff across the organisation to generate ideas. This will be essential to ensuring that there is widespread understanding of, and buy-in to the proposed changes that are needed
 - d. Obtaining independent external advice and guidance - in developing a range of cost reduction options, it is vital to ensure that there is expertise not available from current staff, and an objective rationale and evidence base for the proposed changes that are recommended. To ensure this, the Council has:
 - i. received general advice and challenge from the external members of the improvement board
 - ii. procured specific support from the accountancy firm Deloitte to carry out a full diagnostic review of our service spending, in order to look across the council and identify areas where we spend more than our similar sized "family" of other local authorities, or where we could pursue best practice approaches to service delivery or management.
15. From these different routes a range of cost reduction measures has been developed that collectively are designed to deliver the £8m savings target for 2010/11. Once the savings programme has been developed, it will be important to recast the priorities in the Council's corporate plan, so that we have a clear vision for the medium term.

Designing the new council

16. The Executive has opted to review, in depth, how the council operates in order to identify savings options. This meant there is the capacity to achieve further reductions in the future. It will be important to ensure that any service changes planned are consistent with the longer term vision for the future of the city and the

council. The alternative or more traditional cuts measures were perceived to be less effective, delivering fewer results and would be unlikely to be sustainable especially if there are further problems in the future.

17. The need for savings provides the council with an opportunity to take a fresh look at its organisational shape and style. In future the city council will need to live within reduced resources, but continue to be responsive and “fleet of foot”:

- Smaller (staffing and finances)
- More flexible and adaptable to change
- More responsive to customer needs
- More efficient and streamlined
- “One Council” focussed
- Higher performing
- Working to agreed standards and delivering
- A learning organisation, continuously improving.

18. Annex A sets out some early thoughts on the vision and guiding principles for a new city council, which is fit for the new future of local government, and able to deliver for the city of Norwich. These are largely derived from the early work on developing a new unitary council for the city. This work is being used to guide the choice and development of efficiency options.

19. Executive is asked to endorse the vision and guiding principles.

Overall timetable

20. The sooner that savings can be made, the quicker the proposed efficiencies and cost reductions will start to impact on our spending. However, given that many of the proposals will need further work, and that many need to be discussed with the city, the lead-in time for implementation of some changes could be significant. Any delays to implementation will reduce the savings potential, and may create a need for additional savings.

21. The agreed programme for the re-let of all direct works contracts (currently provided by city care) require the appointment of the new contractors in November 2009. As part of this process it may be necessary to identify where any budget savings will need to be made. The Contracts Working Party will be asked to assess these proposals and their recommendations will be considered by the Executive in November 2009.

22. It is proposed that the Executive submits its savings proposals to Council in December 2009 to allow sufficient time to implement proposals in 2010/11. This will feed into the 2010/11 budget setting process. This will still allow time for proper and early consultation on proposed options, but will allow the Council to make decisions to underpin the budget in December 2009, so that full notice can be given before actual implementation of changes in April 2010 onwards. This will also serve to maximise the level of savings that can be achieved as early as possible.

23. The proposed overall timetable is shown in at Annex B. Executive is asked to agree this.

Efficiency and savings proposals

24. Whilst designing a new city council is the overall goal, the first priority must be to close the £8m budget gap. The basis of the new organisation also needs to be sufficiently flexible to cope with uncertain funding in future years. A range of proposed efficiency and savings proposals has been developed. Executive is asked to note that target savings and estimated staffing and other impacts, are included in Part 2 of the Executive agenda, as they involve staff and commercial information and cannot be made public at this early stage.

25. Broadly, these proposals fall into 3 categories:

- Pure efficiency savings – these are savings which have been developed fully, and which can be delivered immediately in 2009/10. Essentially these proposed changes are about controlling costs and so delivering the same level of service for a reduced cost. Clearly the sooner some savings are achieved this will reduce the overall savings target. Some of these savings are work in hand already and form part of the ongoing commitment to excellence
- Other efficiency and cost reduction savings – these are proposed savings which the Executive are asked to agree in principle to implement, but which need further work to assess the full implications and potential savings. The shaping of these will involve Scrutiny Committee where appropriate, as part of the ongoing dialogue with residents and stakeholders. It is essential to work up detailed proposals, and consider impacts before any changes can be made. It is therefore likely that most of these savings could not be implemented before April 2010.
- Cost and service reductions – these are proposed savings which the Executive are asked to agree in principle, but which will have an impact on either service levels, staffing or performance levels. Nevertheless, these are the savings options that will be the most sensitive to make, and so it will be important to consult all relevant stakeholders on them, and to carry out a full impact assessment, before any changes are approved. It is therefore likely that such savings could not be implemented before April 2010. Both substantive and process issues require more work before they can be brought forward for discussion. Those affecting staff will need formal consultation.

26. Executive is asked to agree the recommendations. This will create a working list of savings options which can be amended as a result of staff consultation or public dialogue. Final decisions will be taken in December 2009, and will underpin the budget for 2010/11.

Dialogue, consultation and decision-making on the implications of any proposed changes

27. Many of the proposed changes set out in the annexes to the Part 2 report may result in changes to service levels, staffing levels, and impact on customers, and

so these will require formal staff consultation, and dialogue with local people and partners. It is therefore proposed that the Executive approves these changes in principle, but allows a significant period for representations before seeking final approval. It is also suggested that as these represent changes to existing service arrangements, that the Executive agrees a final set of proposals to recommend to full Council for approval.

28. Assuming that the Executive on 16 September 2009 approves the efficiency and savings options lists, it is proposed that there should be appropriate levels of dialogue with local people using a variety of different methods. In particular, it is anticipated that there will be need to be significant service and staffing changes, and therefore formal consultation will be needed before any agreed changes can be implemented.

29. The following grid sets out how it is proposed that member, staff and public consultation is handled:

| Possible impact | Proposed action | Outline timetable |
|--|--|--|
| Service levels and/or service choices and/or service charges | <ul style="list-style-type: none"> Public dialogue Scrutiny Committee All City Council members | Continuously throughout the October – early December 2009 period |
| Staffing levels | <ul style="list-style-type: none"> Formal staff consultation Trades union consultation | Start October 2009 |
| Decision making | <ul style="list-style-type: none"> Scrutiny Committee consideration Executive Full council approval for savings proposals Budget 2010/11 and Council Tax | <p>Scrutiny Committee 15 October, and additional programme being considered</p> <p>Planned for 15 December 2009</p> <p>February 2010</p> |

30. With a significant savings target of around £8m there will be a number of areas on which the council will need to canvas views from both the public and stakeholders. Any dialogue would need to :

- inform people about the national and local context in which we are looking to make efficiencies and savings
- ask for comments on the council's proposed priorities for the coming year
- ask for comments on specific savings proposals or any changes we are making to how we are suggesting we deliver certain services
- advise how comments and observations will be taken into account.

31. The dialogue will build on any communications and consultation opportunities

already planned over the next three months, as well as looking at how we can fill the gaps.

Impact on staffing

32. It is expected that some of the savings proposals will have an impact on staff posts. This will mean that statutory consultation processes and timescales will need to be adhered to. The timetable at Annex B takes full account of this.
33. Whilst the precise staffing impacts are being refined, at this stage it is estimated that the draft savings proposals could lead to the deletion of a number of posts. However, at this stage full information on all staffing impacts is not available. Information will be made available at the start of the formal staff consultation process, which is anticipated will start in October 2009.
34. As the City Council has had a vacancy freeze in place for several months, it is anticipated that many of the posts proposed for deletion will already be vacant, and therefore in these cases there will be no impact on actual post holders. The freeze means that there are also some posts filled on a temporary basis available for the potential redeployment of staff.

Decision making

35. Following the consultation period, Executive will be asked to agree the final package and will then recommend this to full Council on 15 December 2009 for approval.
36. This package will form part of the budget setting, which also includes setting the Council Tax for 2010/11. This will still need to be agreed, as usual, at full Council in February 2010. As each 1% increase on the Council Tax only raises approximately £90,000 for the City Council, this will not be a major factor in the delivery of the £8m budget gap.

Impact assessment

37. It will be essential for all savings proposals to be fully evaluated to assess their impact. The Council is developing information on all savings proposals, including business cases with an assessment against issues such as customers, partners, staff, political impact, other services, equalities and diversity, the environment, every child matters, crime and disorder, and deprivation.

Conclusion

38. Norwich City Council is facing a significant gap in its General Fund budget. To meet the future challenges, the Council will need to fundamentally change its shape and culture, and to transform the scope of what it does and how it delivers services. It will need to be smaller, more flexible, and focussed on performance, customers and delivery.
39. By reacting quickly and decisively, the Council has been able to carry out a period of diagnostic and comparative analysis to develop a range of proposed changes

that amount to approximately £7.2m. This leaves a further £0.8m still to be found to close the £8m budget gap.

40. The majority of the identified savings options are efficiency savings which will have no impact on customers or staff. However, this still leaves an amount that will need to be met from changes that will have an impact on services.
41. This report therefore seeks authority to implement immediate efficiency savings, and explore a range of other savings proposals which have staffing and service implications. It also sets out how further consultation and dialogue is proposed to test these proposals out in more depth with members, staff and local people and partners.
42. It is proposed that the Executive will recommend a package of savings to full Council in December 2009, so that implementation can be achieved as quickly as possible.

Draft principles and core values for a new Norwich City Council 2010 onwards...

From April 2010 Norwich City Council will need to be ...

- Smaller (staffing and finances)
- More flexible and adaptable to change
- More responsive to customer needs
- More efficient and streamlined
- “One Council” focussed
- Higher performing
- Working to agreed standards and delivering
- A learning organisation, continuously improving.

Organisational Design Principles

- **Organised around our customer** – The council’s structures will be organised around our main customer groups: people, neighbourhoods and the city
- **Frontline services delivered in neighbourhoods** – Our frontline services will be delivered in neighbourhoods through integrated teams wherever it is efficient and practical to do so.
- **Lean back office services** – Our business support functions will be customer focussed, lean and integrated.
- **Streamlined management** – We will streamline and flatten our management structures and establish a new management competency framework, based on our core values and desired behaviours, with clear accountability and an optimum span of management control
- **One council, working flexibly** – An emphasis will be placed on the whole council working co-operatively together to deliver our services. Staff will work flexibly and proactively, with multi disciplinary roles, theme based working, matrix management and mobile working arrangements where appropriate.
- **Needs driven resource** – We will focus our resources on the areas of greatest need, which may result in differential service levels in different parts of the city.

- **Working collaboratively** – We will work closely with our partners to maximise our resources and deliver joint priorities, sharing and commissioning services where it is more efficient to do so.

Core Values

- **Putting customers first** – putting our customers at the forefront of everything we do, listening and communicating regularly to ensure that we provide the quality services that are most important to our citizens, through the most efficient channels.
- **Delivering value for money** – regularly and robustly reviewing everything we do, to drive out waste and determine the most efficient ways of working.
- **Champions of performance and improvement and change** – constantly seeking ways to improve the things that we do, seeking out and learning from the best and being flexible and responsive to changing circumstances.
- **Focusing on our key priorities and promises** – clearly setting out our key priorities and standards, which are appropriately resourced, so that everyone can focus on achieving them and all our citizens know what to expect from us.
- **Delivering in our neighbourhoods** – delivering services at a neighbourhood level, wherever it is cost efficient and effective to do, shaped by what matters most to local citizens.
- **Focusing resources on greatest need** – where resources are scarce, focusing them on the areas of greatest need, where they will have the most effect.
- **Strong, visible leadership** – leaders and managers who are highly visible and provide clear direction, motivation and consistent, logical decision making.
- **Taking responsibility** – clear accountability for delivery at all levels, with all staff taking personal responsibility for making the right things happen, with everyone understanding the effects of successes and failures.
- **Working together** – working collaboratively internally across teams and externally with partners to maximise the effect of our resources for our citizens.

Principles for the Management of the Reorganisation

The following high level principles outline how the re-organisation project and those projects that also involve elements of staff impact within Norwich City Council should be managed.

- Supportive of the overall strategic direction of the council
- Conducted with full and meaningful consultation with UNISON and individual staff members
- Managed in a timely manner to minimise disruption to the business of the council, the frontline services and to staff

- Compliant with legislative and regulatory requirements
- In line with the core values and behaviours of the council
- Fair, consistent and objective in the treatment of all staff affected, to ensure retention of key skills and behaviours within the council
- Implemented with a view to minimising the impact of compulsory redundancies

Corporate Improvement and Efficiency Programme – Summary of projected key milestones/decision points

| Milestone/decision point | Timescale |
|--|----------------------------------|
| Executive formally agree: <ul style="list-style-type: none"> savings to proceed to immediate implementation (where possible) savings where more work is needed, or consultation with staff, partners and the public (where necessary and appropriate). | 16 September 2009 |
| Further work on all proposals | 17 September – October 2009 |
| Formal consultation period with staff and UNISON commences | October 2009 |
| Scrutiny and member review of proposals starts | October 2009 |
| Dialogue starts with the public and partners | October 2009 |
| Executive considers the results of the direct services contracts relets and any proposed service reductions | November 2009 |
| Executive considers results from staff, public and partners and determines final approval for savings projects to progress to staff selection | Week commencing 14 December 2009 |
| Full council to consider savings proposals | 15 December 2009 |
| Assessment and selection for roles | January 2010 |
| Formal consultation period with staff ends. | February 2010 |
| Scrutiny Committee to consider annual budget proposals | Early February 2010 |
| Executive to agree proposed budget (for recommendation to full Council) | Late January/Early February 2010 |
| Full council to approve 2010/11 budget and council tax | 23 February 2010 |
| Implementation of all new working models | 1 April 2010 |