

Report to: Policy and Resources Committee, 23rd May 2023

Report of: Managing Director

Subject: MEDIUM TERM FINANCIAL PLAN – PROGRESS UPDATE

1. Recommendation

That the Committee:

- 1.1 approves the proposals and timetable for closing the budget gap identified in the MTFP at its meeting of 7 February;**
- 1.2 approves the introduction of a Voluntary Redundancy Scheme and delegates authority to the Managing Director to implement the proposed Scheme in the terms outlined in this report; and**
- 1.3 approves the reallocation of up to £500,000 existing earmarked reserves to cover potential costs.**

2. Background

2.1 The Medium Term Financial Plan (MTFP) published at Council on 21 February 2023 showed a budget gap of £1.706m for 2023/24. The gap is expected to increase over the following four years to £3.822m per year, as shown in the table below:

	2023/24	2024/25	2025/26	2026/27	2027/28
	£000	£000	£000	£000	£000
Forecast Draft Net Budget	13,557	14,351	15,147	15,919	16,611
Grant & Taxation Financing					
Services Grants	1,083	1,082	1,082	1,082	1,082
New Homes Bonus for Budget	83	83	83	83	83
Business Rates	3,842	3,919	3,997	3,997	3,997
Council Tax	6,820	7,017	7,219	7,422	7,627
Council Tax Surplus/(Deficit)	26	0	0	0	0
Net Transfer (to)/from Reserves	0	0	0	0	0
Forecast Budget Financing	11,851	12,101	12,381	12,584	12,789
Forecast Budget GAP	1,706	2,250	2,766	3,335	3,822

2.2 The underlying reason for the budget gap is that increases in costs continue to outstrip increases in income. For example, salary and related costs rose by £700k between 2021/22 and 2022/23 and are expected to rise by a similar amount in 2023/24. Energy costs have increased by £600k per year, including contributions to Freedom Leisure’s energy costs, while general inflation increases added £300k above original estimates for 2023/24.

- 2.3 These increases form the new baseline spend for each year and, unless costs reduce, will result in increases in costs continuing to exceed increases in income. Income from fees and charges can be increased by inflation each year but increases in business rates and Council Tax, which represent 40% of total income, are restricted by Government funding formulas. The development of the MTFP has been hampered to some extent in recent years by overall constraints on public-sector funding, with departmental control totals being fixed, and the practice of implementing annual, rather than multi-year settlements.
- 2.4 Moreover, the Council needs to consider current and future pressures which may have an impact on existing resources. These include responses to the Environment Act, Nature Recovery and Biodiversity strategies, new Waste Collection arrangements, Planning Reforms, the Building Safety Act. The cost of living crisis and increasing resident expectations are also creating additional pressures. Some of these may attract New Burdens Funding but the level and extent of this is unknown and may not be recurring.
- 2.5 The gap of £1.706m in 2023/24 is to be met from non-committed reserves and the additional allocation of revenue costs to capital projects but there are insufficient remaining unallocated reserves for the Council to continue to meet the budget gap in this way. Therefore, it is necessary to reduce costs and/or increase income so that planned spend is not greater than planned income in each year.
- 2.6 A savings plan is needed to achieve this that projects costs reduction and/or increases in income over a three-year timescale. This will which provide some stability and certainty and enables savings to be properly planned, consulted upon and implemented in a measured way.
- 2.7 The current cost profile is shown in the following table. This suggests that once non-variable costs are taken into account, savings in the region of 8-10% will be required to bring costs in line with income in overall terms.

Expenditure	£	proportion
Employees	12,914,770	48%
Premises	3,961,890	15%
Recharged Exp	143,060	1%
Supplies & Services	2,585,175	10%
Third Party Payments	6,293,170	23%
Transport	737,480	3%
Total	26,635,545	

NB: 'Third Party Payments' includes shared services (£3.3m), grants and agreements (1.7m), partnership payments (£0.8m), fees payable (£0.3m)

- 2.8 The approach to achieving the savings and/or generating increased income are set out in this document along with the principles underlining the approach and a timetable for progress. One key stage is the need to introduce a voluntary redundancy programme, similar to that used in December 2020 to achieve savings, and a proposal for such a scheme is also included in this report.

2.9 It is also necessary to state that, in the event that the savings plan and voluntary redundancy exercises are not sufficient to reduce the identified budget gap then compulsory redundancies may need to be considered. Therefore, the Managing Director will be writing to staff-side representatives to advise that staff will be at risk of redundancy once the Committee has received this report.

3. Information

3.1 The savings plan will be developed on the basis of the principles set out in the following paragraphs.

3.2 The relevant decision-making Committee will be Policy & Resources which will receive quarterly reports on progress to achieving the above targets and have primacy above other committees in terms of financial decisions. Each of the policy committees will have an opportunity to review proposed changes to service budgets as part of the 2024/25 budget process as usual. Because of the Committee system this will enable all Members to have oversight of, and input into, the process of achieving savings and raise any concerns about meeting local priorities, which can then be addressed in advance of the decision as to what to recommend to Council for approval in February 2024. This will remain with the Policy & Resources Committee.

3.3 The Corporate Leadership Team (CLT) is taking responsibility for recommending updates of the MTFP to the Committee and implementing the revised plan successfully. CLT will work in a collaborative way with service heads and managers and take an "open door" approach to staff concerns or innovative suggestions.

3.4 CLT will look to reduce revenue expenditure or increase income wherever reasonably possible before reducing staff posts and will require all posts falling vacant to be supported by a business justification for the post to be filled and a clear statement of impact in the event that it is not. The initial review process has already identified a number of opportunities, including two matters which were discussed and agreed at the Group Leaders/CLT meeting of 3 April:

- Closing of the Guildhall on Sundays (which will produce a staff costs saving of £14,350 + reduced energy costs)
- Introducing a charge for entry to the Worcester Show (a suggested average charge of £2 per adult is being considered which would generate up to £10,000 net income based on 2022 attendance figures, once new operating costs have been taken into account).

3.5 No areas of Council business, whether statutory or non-statutory, are protected but that does not mean that savings will need to come from each area equally – relevant considerations regarding the Council's statutory responsibilities, safe governance and business continuity will be taken into account.

3.6 Shared services are included. Relevant Corporate Directors will be writing to shared service partners setting out our intentions and the principles and processes included in this report.

3.7 Service plans will set out the implications and impact of savings on business functions. Each service will identify outputs and outcomes during 2023 that they can and will commit to deliver in the light of reduced costs and increased income and

build these into service plans for 2024/25. These outputs and outcomes will be identified as part of the development of the savings plan.

- 3.8 The Council will continue to meet its statutory responsibilities but, outside of that, services will be decommissioned as necessary: this means that we will do less for less or only continue functions where these generate sufficient income to recover costs in full. 'Efficiencies' (i.e. reducing non-value-added and waste activity that will enable us to do the same with less resources) will still be identified but this will not be the main focus. We will recognise where we do not have spare capacity and the need to choose between what we will continue to do and what we will stop doing.
- 3.9 Alternative delivery models will be considered, including outsourcing or shared services or by returning services in-house where this has the capacity to deliver sustained savings by, for example, ceasing functions. Other options will include community asset transfer or transfer of functions to community/third sector organisations where these can provide services to an agreed standard.
- 3.10 For some activities we will move to an enabling approach rather than direct delivery. We need to think about how we help others to take on functions where the Council is not under a statutory responsibility to directly deliver the activity itself.
- 3.11 Where we do choose to deliver services directly, we will seek to increase income generated locally from public and private sources, such as bidding for grants and sponsorships in addition to fees and charges increasing in line, at least, with inflation.
- 3.12 The external grants that we provide to third parties will reduce – this will require the introduction of a limited period for calls for bids.
- 3.13 The Council will seek to minimise any compulsory redundancies by offering voluntary redundancy on enhanced terms and vacancy management.

4. Assumptions

- 4.1 The approach to the savings plan outlined above is based on some key assumptions, which are set out below.
- There will be no reduction or significant increase in core spending power, as set out in the MTFP above.
 - We can continue to charge salary costs to capital grants and/or capitalise salaries where the work directly relates to the increase in asset values (currently up to £0.5m p.a.)
 - The cost assumptions built into the MTFP remain as per the published Council papers.

Financial Assumptions	2023/24	2024/25	2025/26	2026/27	2027/28
Council Tax Base increase / (decrease)	1.3%	0.5%	0.5%	0.5%	0.5%
Council Tax increase	2.99%	2.42%	2.36%	2.31%	2.25%
Interest rates (receivable)	3.25%	2.75%	2.50%	2.25%	2.00%
Salary inflation	5.0%	2.0%	2.0%	2.0%	2.0%

Non-pay inflation (average/selected items)	7.5%	2.0%	2.0%	2.0%	2.0%
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- The Council will not seek a capitalisation determination from the Secretary of State and will not apply to the Department for flexible use of capital receipts. The latter will require a formal proposal to be submitted in advance of the implementation of the savings plan. Any transition costs (such as redundancy and pension strain costs) will be funded from reserves. This will require existing reserves to be re-purposed.
- The external auditors and the Council's contact at DLUHC will be advised of the savings plan and receive copies of these principles and processes and other related documents. This will ensure accountability and reinforce the requirement to make all decisions with value for money and the Council's fiduciary duties in mind.

5. Timetable

- 5.1 The savings plan will be developed and implemented in accordance with the timetable shown overleaf.

Activities for reducing the MTFP budget gap	Dates
Principles and process agreed by Corporate Leadership Team (CLT)	21/3/23
Meetings between Corporate Directors, Heads of Service and Finance Team	w//c 27 March – 21 April
Group Leaders briefing	3 April
Appointment of external adviser to support the process, provide challenge and ensure accountability	Mid-April
Review of progress to date by CLT	2/5/23
Meetings with all staff in teams to advise of principles and process	3 - 12 May
P&R report Committee Agenda Planning meeting	9 May
P&R report publication	15 May
P&R Committee	23 May
Service reviews continue following initial period	23 May – Mid-October
Issue formal notice of risk of redundancy to Unions and staff representatives	24 May
All-Members briefing	24 May
Voluntary Redundancy (VR) process opens for applications	29 May
VR expressions of interest	By 7 July
Process financial information for individuals	By 31 July
Final decisions on VR applications	By 1 October
Extra-ordinary P&R to review any VR applications above agreed thresholds	Mid-October
All-Members draft budget meeting	Mid-October
Committee scrutiny and decisions	October & January
All proposals to P&R Committee for consideration and recommendation to Council	6 February 2024
3-year Savings Plan approved at Council	20 February 2024

6. Voluntary redundancy scheme

6.1 As indicated above, the approach to achieving a balance MTFP is in three stages:

- (i) Efficiencies and costs reductions to be identified as part of service reviews (currently underway)
- (ii) A voluntary redundancy exercise to identify opportunities to release employee costs, where staff are willing to accept enhanced redundancy payments and/or take early retirement without actuarial reductions to their pension entitlements
- (iii) As a last resort, compulsory redundancies where CLT have identified that a function is not required or can be delivered with reduced resources.

6.2 The Council's Redundancy Policy is kept under review and was last approved by the Committee at its meeting of 15 December 2020. The Council has a legal obligation to keep its Redundancy Policy under regular review and ensure that it represents an appropriate use of discretionary powers and is workable, affordable and reasonable having regard to the foreseeable costs.

6.3 Employees only receive redundancy payments if they have at least 2 years continuous Local Government service, which may include service with another public sector employer as defined in legislation.

6.4 There is a statutory sliding scale for redundancy payments dependent upon age and length of service. The statutory scale is currently as follows:

- Service up to age 22: 0.5 week's pay for every year of service
- Service from ages 23 up to 41: 1 week's pay for every year of service
- Service from age 41: 1.5 week's pay for every year of service

Weekly pay is capped at £643 and the maximum amount of statutory redundancy is £19,290. More information on the statutory scale can be found on the Gov.UK website.

6.5 The Council has powers to enhance the statutory redundancy pay scheme, within certain legal parameters. Any enhanced scheme must be kept under review by the Council and may be withdrawn or varied.

6.6 The Council currently enhances the statutory redundancy pay scheme in two respects:

- The Council bases redundancy pay on an employee's actual contractual gross weekly pay, rather than cap this at the maximum statutory limit for a week's pay, as set by the Secretary of State; and
- The Council multiplies the statutory scale (number of weeks' pay for every year of service) by a factor of 1.34.

Therefore, redundancy calculations are based on the following and the statutory cap of £643 per week is not applied:

Actual Contractual Gross Weekly Pay	X	Number of weeks statutory redundancy entitlement (based on age and length of service)	X 1.34	= Redundancy Pay Due* *Subject to the other terms of the Redundancy Policy, including a max of 20 years length of service and any public sector exit payment cap that may be imposed.
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- 6.7 Supplemental to the above policy position, the Council may from time to time introduce additional enhancements (subject to the legal parameters) to incentivise employees to leave by way of voluntary redundancy prior to a compulsory redundancy exercise. These enhancements may include introducing a higher multiplier of the statutory scale for a limited period of time and/or offering pension benefit enhancements where the law allows.
- 6.8 If the Council introduces additional enhancements for voluntary redundancy, then additional conditions may be imposed to ensure the scheme gives good value for money and is a responsible use of public funds. These additional enhancements may include a requirement to enter into an employee settlement agreement reflecting the fact that a full redundancy consultation process will be avoided and also a requirement that the employee may not be re-employed by the Council, after termination, for an extended specified period of time.
- 6.9 As noted above, the Council's published position is a multiplier of 1.34, applicable to compulsory redundancies as well as voluntary. Therefore, it is proposed that any enhancement to encourage voluntary exits would need to represent an increase on the Council's established position. An enhancement of 1.5 times the statutory multiplier is proposed.
- 6.10 As an example, an employee applying for voluntary redundancy aged 50 with 20 years' service and earning a mean average wage of £26,000 would:
- under the statutory scheme, receive a redundancy payment of £12,250
 - Under the Council's existing redundancy scheme, receive a payment of £16,415
 - Under the voluntary scheme proposed, receive a payment of £18,375.
- 6.11 As a further support, the offer would include an outplacement support package to help applicants improve their job search skills and increase the chances of finding alternative employment, if desired, which would cost around £200 per person.

Restrictions

- 6.12 The law requires that any scheme, even time-limited as proposed here, must be published after it has been approved and cannot come into effect until one month after it has been published. This would mean that employees could still submit expressions of interest, which are non-binding on both the employee

and the Council, but those expressions of interest would not be converted into offers until the scheme has been published for at least one month.

- 6.13 The proposed temporary enhancement to the redundancy offer would be made available to employees to make expressions of interest during a fixed window of 6 weeks, from 29 May to 7 July. Decisions will be taken on which applications are agreed by 1 October at the latest. Exits would take place prior to the budget meetings in February to confirm that the savings are achieved.
- 6.14 Employees will not be required to make a final decision on whether to accept a voluntary redundancy offer until the Pension Fund administrators have provided them with an estimate of their exit payment, where relevant. For those over 55, where there is an impact on the pension fund, additional calculations are required for any payment to be made by the Council to mitigate this impact 'pension strain' costs.
- 6.15 Under existing arrangements, confirmed at Personnel & General Purpose Committee at its meeting of 27 February 2019, the total impact of redundancy and pension strain costs, and any other exit costs, cannot exceed the value of 2.4 times the gross salary (including oncosts) of the post. Where the total value of exit costs is below this limit but exceeds £95,000, the voluntary redundancy request must be referred to Committee for consideration. Also, in accordance with the Council's Scheme of Delegation to Officers, any proposals to agree voluntary redundancies which would have a significant impact on service delivery will be referred to Committee for approval.
- 6.16 The expected number of redundancies (voluntary and/or compulsory) will be confirmed as the service reviews continue. In line with our Redundancy Policy the recognised unions will be kept fully informed so that they will be able to support any members that request their help.
- 6.17 The Redundancy Modification Order would apply to all exits under this scheme, so that in the event that a leaver recommences employment with another local authority and other organisations defined in the Order within 28 days of leaving the Council's employment, any exit payments would have to be refunded to the Council.
- 6.18 To ensure that this voluntary scheme continues to deliver savings and represents an appropriate use of public funds, it is proposed that an employee leaving through this scheme cannot be re-employed by the Council within 18 months of the date of leaving or else be required to repay their redundancy payment. It is proposed that all exits agreed under the voluntary redundancy scheme would be made subject to employee settlement agreements which would provide both the Council and the employee with certainty and finality over the legal terms of their exit.
- 6.19 Not all requests for voluntary redundancy are likely to be agreed. The following rules would apply to the scheme:
 - All applications will be reviewed by CLT and no applications are guaranteed to be accepted.
 - A determination that the post or an equivalent post cannot be deleted will mean rejection of the application.

- The post occupied by the applicant or an equivalent post (a 'bumped redundancy') must be deleted and the service budget amended to reflect the saving.
- The costs of any redundancies must not be more than 2.6 times the ongoing annual saving delivered including any pension strain for applicants over 55.
- The enhanced calculation would only apply during the defined and published 6 week period. After that point the normal policy would apply.
- The final decision on whose applications would be accepted will be made by the Managing Director, as Head of Paid Service, giving due regard to the need to continue to provide quality services to people who live and work in Worcester. In accordance with the Scheme of Delegation to Officers, a significant change to the structure of a department or service would require Committee approval.

7. Preferred option

7.1 To implement revisions to the MTFP to meet the identified budget gap in line with the principles and timetable set out in the report.

7.2 Alternative options considered

7.3 To not implement revisions to the MTFP. While the Council has sufficient reserves to meet the budget gap in 2023/24, there will not sufficient reserves available to meet a similar budget gap in 2024/25 and, as costs continue to rise faster than income, the gap is set to increase over time. Therefore, unless a savings plan is established to reduce the budget gap to zero, the Council will not be able to set a balanced budget from 2024/25 onwards.

7.4 To implement alternative approaches to achieving the costs reductions and/or increases in income. The principles set out in the report are designed to have the minimum impact on services and staff and to have the least impact on reserves. Alternative ideas will be sought as part of the development of the plan and the Committee will receive quarterly reports on progress, allowing for changes in approach as these appear necessary in due course.

8. Implications

8.1 Financial and Budgetary Implications
These are set out in the report.

The potential costs of redundancies and pension strain can be estimated based on the exercise undertaken in 2019/20. During that exercise, 13 Voluntary redundancies were agreed, resulting in savings of £593k per year. The one-off costs in terms of redundancy payments and pension strain was £380k. Assuming a similar number of VR reductions are achieved in 2023/24, reserves of up to £400k will need to be identified to enable the VR process to be completed. However, should we need to identify compulsory redundancies then further costs may be incurred and an allocation of £500,000 is therefore

recommended.

A review of earmarked reserves indicates that there are sufficient reserves that have been earmarked for a specific purpose but where no tasks are currently underway, or in planning, which would draw on the reserve. These include, for example, current balances on the following:

Transformation Fund	£45,141
Income Generation Fund	£157,019
Crematorium Reserve	£210,250
Kings Court sinking funds	£334,870
<u>Small Projects Fund</u>	<u>£42,450</u>
Total	£581,582

Further details of potential reserves to be reallocated will be presented to the Committee at its July meeting for consideration.

The Committee will receive quarterly reports on progress towards meeting the savings target of £1.706m. The financial implications of any decisions taken under delegated powers or submitted for consideration by the Committee will be advised as part of these reports.

8.2 Legal and Governance Implications

The Council has a legal obligation to set a balanced budget each year, which is why this active approach to the Medium Term Financial Plan is a key governance responsibility for Members and CLT this year.

Legislation applicable to the process of making redundancies set out a number of steps and criteria that must be applied; these will be adhered to at all stages of the process and staff and union representatives kept informed of each stage that the process has reached.

The governance of the savings process will be managed in accordance with the relevant parts of the Council's Constitution, specifically Part 18, Scheme of Delegation to Officers and also Part 3, Responsibility for Functions of Committees.

8.3 Risk Implications

The Corporate risk register includes a number of risks which may need to be re-assessed in the light of the report:

- City Plan Priorities – financial resources
- City Plan priorities – staff resources
- Shared Services
- Health & Safety
- Staff resilience
- Overspend against funding
- Reputation and resource

A bi-annual report on risks is elsewhere on the agenda of the meeting, This includes some revisions in light of the financial circumstances identified in the report. Further reports of risk assessments in the light of progress towards the savings target will be brought to the Committee along with the quarterly updates.

Service risk registers will need to be reviewed to take account of any local decisions about service delivery and/or staffing.

8.4 Corporate/Policy Implications

One of the key principles set out in the report is that the approach is based on reducing activity along with reductions in resources, rather than extending reduced resources to cover the same level of activity. This may mean that some service currently delivered under existing policies or expressed priorities, including City Plan priorities, may need to be reduced or ceased. Any identified impacts will be reported to the relevant policy committee.

8.5 Equality Implications

An equalities impact assessment will be conducted for all proposals for savings or increased income which have a potential impact on service delivery. Significant equalities implications will be reported to Committee prior to decisions being progressed further.

8.6 Human Resources Implications

These are set out in the report.

8.7 Health and Safety Implications

There are none arising directly from this report. However, health and safety risks will be considered as part of the reviews of risk registers and reported to the committee as indicated above.

8.8 Economic, Social and Environmental implications

There are none arising directly from this report. However, any implications arising from proposals to reduce costs or increase income will be considered as part of future reports.

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Background Papers: Voluntary Redundancy Scheme – Policy & Resources
Committee Report, 15 December 2020