

## **Cabinet**

Meeting to be held on 12 August 2015

## **Report of the Corporate Director for Commissioning and Deputy Chief Executive**

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| Electoral Division affected:<br>None |
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### **Base Budget Review**

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### **Executive Summary**

The council is facing an ongoing challenge to be able to deliver its services in the context of its reduced and reducing resource base.

The resource base of the council is a function of decisions taken at a national level in the previous Parliament. The new government has made clear its commitment to a reduced level of public services and these have been announced in the Spring Budget and articulated further in, "A country that lives within its means: Spending Review 2015", presented to Parliament by the Chancellor of the Exchequer to the Treasury.

The separate Money Matters report on the agenda, setting out the "Outlook for the County Council's Medium Term Financial Strategy", indicates that the council will need make decisions to bridge an annual budget shortfall of circa £225m by April 2020. Of this the council will need to address a shortfall of £87.1m by 1<sup>st</sup> April 2017.

To address these shortfalls it is proposed that the council undertake a zero base budget review to inform the council's future budget process.

The report sets out the approach to this budget review.

### **Recommendation**

The Cabinet is asked:

- (i) To note the approach and timetable for the proposed Base Budget Review set out in the report.
- (ii) To agree to a procurement exercise to put in place a Consultancy Framework to support the activities set out in the report.

## **Background and Advice**

The council faces an unprecedented budget challenge, having to deliver the final and most difficult elements of a £500m reduction programme combined with a further reduction in its resource base, as a result of the proposed £20 billion reduction in "non-protected" government departmental expenditure. This will need to be achieved alongside the continuing growth in demand for council services.

The separate Money Matters report on the agenda, setting out the "Outlook for the County Council's Medium Term Financial Strategy", indicates that the council will need make decisions to bridge an annual budget shortfall of circa £225m by April 2020. Of this the council will need to address a shortfall of £87.1m by 1<sup>st</sup> April 2017.

These reductions are on top of the decisions already taken in the 2014 and 2015 budgets.

Given the magnitude and severity of the impacts of these reductions it is considered that there is now a need to undertake a root and branch review of every aspect of the services provided by the council. The way it is proposed that this be undertaken is through a zero base budget review in the context of a clear Corporate Strategy that sets out the council's priorities.

Such zero based reviews are rarely carried out by councils due to the massive undertaking they involve; the county council's budget is made up in detail of some 15,000 budget lines.

Given the extremely difficult decisions that Full Council will need to make in setting the council's future budgets, officers recognise the importance of providing Members with a range of options from which to make choices. Whilst the "Outlook for the County Council's Medium Term Financial Strategy" suggests that the council may not even be able to meet its all its statutory requirements by 2020/21, the approach set out for the Base Budget Review process aims to provide Members with the maximum scope to make choices.

### **Stage One: What can be stopped?**

The council has now reached the stage where the only way to meet the budget challenge will be to stop providing some services. We are now well beyond an approach to expenditure reduction that can be achieved through reconfiguration of services and different delivery models.

### **Statutory services and legal challenge**

The council has a legal obligation to provide services to its citizens as set down by statute. What is not clear, however, is what constitutes the threshold of what is and what is not mandated by statute. We therefore talk of statutory services with a degree of imprecision. The current configuration of the council's budget does not provide a sufficiently fine grain against which to judge what must be spent to meet our statutory obligations.

The first stage of the Base Budget Review will therefore be a detailed analysis of every service provided by the council, breaking down budgets to a service specific level. It is estimated that this would represent in the order of 200 or so individual services.

A statutory test would then be applied to that service to assess whether or not the council must provide the service and the threshold at which the service must be provided. The test that will be applied is as follows:

- If the council stopped providing the service would it be likely to lose a legal challenge?

This is a very narrow test and will involve a judgement being made. It is important to note that the test is not whether or not a legal challenge may be received, but whether in the opinion of the Monitoring Officer, it is likely we would lose such a challenge.

Often, public service legal challenges in respect of service reductions are lost as a result of appropriate procedures not having been undertaken, in particular effective consultation processes.

This first stage will therefore set out clearly the details of what would need to be done to reach a point where a service could lawfully be ceased and the time it would take to reach the point where expenditure could be stopped.

### **The outputs from Stage One – Member briefings**

The Management Team have already started work on Stage One and have set the end of September for this analysis to be completed.

The outputs from this stage will be a detailed schedule for every service, its cost and its status as statutory or non-statutory based upon the narrow statutory test described.

This will provide the information base upon which future decisions can be considered. It would be the intention to present this to a number of meetings of the Budget Scrutiny Working Group throughout October 2015.

Given the magnitude of the decisions that the Full Council will need to take in setting the budget in February 2016, it is considered that an early and wide understanding of the information will be essential for all 84 Members of the county council. A series of detailed briefings for Members will also be scheduled throughout October 2015.

### **Stage Two – establishing the future pattern of county council services**

The outputs from Stage One will provide an indication of the total expenditure required to provide a minimum level of statutory service. Hopefully, this will leave a balance of resources that can be allocated to other service areas. The output from Stage One will also provide the detailed costs of the non-statutory services;

consequently a future pattern of service provision will be able to be configured using this information.

Clearly the final outcome of Full Council's considerations, would be a schedule of services that can no longer be afforded within the financial resources of the council.

The role of the new Corporate Strategy in shaping the future direction of services will become vital in ensuring we do all we can to meet the needs of Lancashire's citizens. The priorities of the new Corporate Strategy would be used to prepare options for consideration by the Cabinet as to the future pattern of council services.

Cabinet would publish its budget options for consultation in November 2015 as part of the normal budget cycle.

The outputs from Stage One will provide all Members with the information to enable them to consider alternative budget options and alternative patterns of future services, subject to these being contained within the council's resource envelope.

### **Stage Three – the zero base**

Once Full Council has decided upon the future pattern of services in February, detailed work will commence on these services to undertake a fundamental line by line zero base budget review of all expenditure within the retained services. This would also involve a review of the business model of how services are delivered to ensure the best value for money.

It is anticipated that this work would release resources for future investment in services or to meet the budget pressures from 2018/19 to 2020/21

### **Stage Four – reconfiguration of the council's operating model**

The outcome of stages one to three will result in the county council being very different in terms of its pattern of services and being a considerably smaller organisation. There will therefore be a need to look again at the operating model of the council and its management structures, such that they too are smaller and fit for purpose. This part of the Base Budget Review will impact employees at grade 11 and above who have recently taken up their appointments to the new management structure. Whilst this is likely to have an earlier impact as a result of decisions to cease specific services, it is not envisaged that any wholesale change would take place until April 2018. This will provide a relative level of stability in during what will be a very turbulent period.

### **External support**

The council has recognised the need for external consultancy support to reconfigure some of its major services. To date external consultancy services are being procured to support the reconfiguration of Adults' Social Care and to undertake a diagnostic of Children's services.

It is proposed that the council undertake a procurement to establish a wider Consultancy Framework that will allow the council to call off services as and when need arises throughout this Base Budget Review and wider transformation process. In particular it is proposed that an external consultancy would be used to review the council's operating model and management structure as part of Stage Four.

### **Consultations**

Consultation is proposed as part of the separate report on the agenda in respect of the draft Corporate Strategy. Consultation will take place as part of the normal budget process. Additionally, as set out in the report it is proposed that extensive briefing take place for the Budget Scrutiny Working Group and all 84 Member of the council.

### **Implications:**

This item has the following implications, as indicated:

### **Financial**

The costs of external consultancy services will vary depending upon the nature and scale of the work required. Separate authority will be sought for any work not covered by budgetary provision. It is anticipate that there will be a call upon the council's reserves to enable this work to be funded and these requests will be presented for consideration on a case by case basis.

### **Risk management**

The actions set out in the report are considered essential to mitigate the council's budget risks and ensure that the council will be able to set robust and sustainable budgets in the years ahead.

### **List of Background Papers**

| Paper | Date | Contact/Tel |
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None

Reason for inclusion in Part II, if appropriate

N/A