

Agenda Item 5

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THE COUNCIL'S LONGER TERM FUTURE AND MEDIUM TERM DIRECTION

Portfolio:	Leader
Ward(s) Affected:	n/a

Purpose

To offer a longer term perspective for the Council's financial and organisational future and to agree a specific series of strategies and actions that will safeguard the financial stability of the Council as well as to ensure an enduring presence for local public services headquartered in Camberley.

Background

1. In February 2009, the Executive considered a report entitled 'Securing our Financial Future'. It set out the Council's financial challenges for the forthcoming 2009/10 budget and noted that there was a £850,000 deficit between recurrent income and recurrent expenditure. It accepted a series of strategic recommendations aimed at eliminating that gap, which may be summarised as follows:
 - Reducing resources to lower priority services
 - Lowering our internal overhead costs
 - Increasing revenue
2. Consistent with that approach, the Executive decided to take the following steps:
 - a. Reducing Council resources to lower priority services, and focusing on: Community Services, and in particular:
 - Meals on Wheels
 - Community Alarms
 - Community Transport
 - Day Centres
 - Camberley Theatre
 - Surrey Heath Museum
 - b. Lowering our overhead costs, and focusing on:
 - The strategy being prepared by the Director of Corporate Services
 - Applying the following principles to partnership working that results in the Council entering into partnerships where:
 - There is an existing arrangement to which we can easily join or participate, and which would be in the mutual self interest of all involved to do so;
 - New arrangements that are bi-lateral, rather than multi-lateral;
 - Outsourcing arrangements with the private sector where its commercial interests match our test of self interest and will result in an improved service to the public.
 - Requiring management to continue with its ongoing efforts to introduce more sustainable use of resources; reviewing all staffing vacancies; and consolidating administrative support costs.
 - c. Increasing revenue, and to report back to the Executive in the spring on a principle-driven approach to charging for services.

3. This report briefly summarises the results of those decisions and offers a longer term perspective for the Council's financial future. It looks at the situation now facing all District Councils and the options available for the Surrey Heath Borough Council in particular. It should also be considered as a scene setting report for the 2010/11 Budget Report and 2020 Corporate Plan reports that will be considered by the Executive on 26 January 2010.

The Council's Present Position

4. The financial situation facing the Council last year was grim, largely due to a combination of mostly internal factors:

First: the Council was to significantly upgrade refuse collection which on an annual basis would increase recurrent costs by £0.7m per annum.

Second: the Council had yet to identify either a compensating exit path from relatively high cost/lower priority services; and/or a way of substantively reducing overhead and support costs

Third: our non-tax, grant income, and investment income was predicted to reduce by £0.7m.

5. For 2009/10, the Executive set itself the target of achieving £850K of recurrent savings to ensure that it could produce a balanced budget for 2010/11. It followed the steps set out above, and when added to other savings initiatives to date, the organisation is on track to exceed that amount:
 - £900K of savings has so far been identified for 2010/11
 - £160K of additional savings from our current efforts can be expected in 2011/12
 - Staff numbers by the end of 2009/10 are likely to be in the order of 264 ftes, about the same as they were in 2004/05, and down from the peak of 284 ftes in 2006/07.
6. In short, the Council is on track to achieve its recurrent savings target, and in so doing to reduce staff numbers by 7%, or 20 positions, from the peak of 284 ftes in 2006/07. It means that there should be a tough, but relatively straight forward expenditure budget for next year. Significant revenue shortfalls will remain, however, which will need to be addressed. Thus, despite the advances made in curtailing expenditure, the outlook still remains grim.
7. In its discussions with the Management Board, the Executive has made it plain that it is determined to improve and maintain the Council's financial sustainability, and to build on the success it has had in recent years in embarking on significant service improvements while maintaining healthy reserves.
8. As with many other smaller District Councils, the Executive has also been considering options that will enable it to continue to provide service to the community in the face of the twin spectres of falling income and rising costs. Again, like many other smaller District Councils, it believes that radical changes will need to be made to ensure that our prime purpose (local services to the community) is maintained.
9. Over the latter part of 2009, it has also put a significant effort in developing a realistic view of its financial prospects into the medium term. These efforts have been given greater urgency by the widely accepted need for significant

cuts to public sector expenditure. Local Government will be affected, and may well be called upon to make larger sacrifices than other parts of the public sector.

The Council's Prognosis

10. Once the desks are cleared after the 2010 General Election, the organisation will be faced with a number of likely events:
 - Significant reductions in public sector spending, especially in the 'unprotected' areas such as local government
 - Much lower levels of Council Tax capping and possibly Council Tax freezes
 - Reductions in NNDR and RSG
 - Further falls in other income and charges due to prevailing low interest rates on our declining investments, and low economic activity.

11. Recently, there has been a flurry of analyses of the predicament facing local government. On behalf of the Society of District Treasurers, Deloitte has conducted just such an analysis of District Councils in particular. Its conclusions are sobering. It paints a picture of declining rates of increase in Government funding, steadily declining reserves, and increasing cost pressures. It reported that the latest estimates submitted by District Councils to the Department for Communities and Local Government (CLG) for 2009-10 show that:
 - Unallocated reserves will reduce by 16% over their 2008-09 level.
 - Unallocated balances at the end of 2009-10 are expected by the Councils to be £492m. As a simple average this is £2.4m per Council.
 - National Performance Indicator 179 shows that in 2009 District Councils achieved collective efficiency savings of £224m. Councils have now been achieving 3% savings per annum since 2005-06, suggesting that most of the easy saving options have been taken.

12. Against that backdrop, Deloitte then modelled three financial scenarios (best, moderate, worst) leading up to 2013/14.

13. In the moderate scenario¹, it found that the gap between income and expenditure by 2013/14 for all District Councils would be £800m, representing 10% of gross service costs. Without significant savings, the projected reserves at the end of 2009-10 of £492m would be completely utilised by early 2012-13, and an increase of 15% per annum in Council Tax would be needed to bridge the gap.

14. That's the big picture. The study then looked at what that might mean in terms of required cumulative savings for each District Council in 2013/14, as shown by the table:

Council size in 2009-10	Reduction in budget requirement needed
Budget requirement £9m	£2.21m
Budget requirement £15m	£3.68m
Budget requirement £20m	£4.91m

¹ See Appendix 1 for the assumptions for that scenario, and the trends for all three scenarios.

15. In our case (with a Budget requirement of £12m), it would mean a cumulative reduction in net expenditure of £3m, or £1m a year. This would require savings for each of those years of 8.3%.
16. I have discussed this study with the Head of Corporate Finance (who kindly supplied it to me). He confirms that the results set out above are an accurate general reflection of the challenges facing the Surrey Heath Borough Council. In our case, if significant ongoing savings are not found over the next three years by 2013/14, the Council's unallocated reserves will be exhausted, the funding shortfall would be in the order of £3m, and a very significant council tax increase would be required to restore the Council's financial viability.

Implications for the Council

17. If so, it is plain that the Council would be looking at greater additional cuts on top of those already being made to maintain its financial sustainability. The Budget to be produced for the Executive meeting on 26 January will outline the various approaches that will be taken to meet the financial challenges for 2010/11. As indicated earlier, it will be a challenge, and bring with it important questions to be asked and answered regarding the Council's longer term viability.
18. While savings can always be found from within an organisation, it is unrealistic to expect that same review processes will always produce the same gains: the law of diminishing returns will kick in. At some point there has to be serious consideration given to savings options outside the organisation to be able to provide continuing services against a backdrop of declining resources.
19. That position is now coming into view, bringing with it an essential question:

"Is the Council to be a smaller organisation that provides only statutory services or part of a larger collectivity that delivers more services?"
20. An important consideration in reaching a view on that is this; the community wants service from its local public bodies. It does not much care (nor in many cases, know) who delivers them. It is service to the public that must prevail over the governance arrangements for its delivery. All other things being equal, the end goal should surely be more services from a larger collectivity, rather than fewer services from a smaller entity.

Future Change

21. The Council has long-held the view that at some point it may become part of a Unitary structure. It may well be that the scenario projected above will bring that day closer than expected. In considering its options for the future, the following propositions would seem to hold quite some force:
 - 21.1 Without significant and radical change to its basis of operation, the Council's financial position will decline to the point that it would not be able to continue to provide an adequate level of service to the community.
 - 21.2 Whatever forms that significant and radical change may take, it must begin that process in a way that positions itself for its

desired future, and more particularly for the future it would wish to see for the delivery of local public services in Surrey Heath.

- 21.3 That future must have three vital components:
 - 21.3.1 A strong presence for Surrey Heath's local public services, and headquartered in Camberley.
 - 21.3.2 Representation and governance systems that ensure a strong and authoritative local voice for local people.
 - 21.3.3 Levels of public services that are based on community need and expectation, consistent with ability of the Council to pay for it, and the willingness of the individual customer or citizen to pay for their fair share of it.

Options Available

- 22. There are five options for change that would be consistent with such propositions:

- 22.1 **Become part of a Unitary Authority, based on a local economic community of interest**

The last time unitary structures were seriously discussed in Surrey, the Council made its position plain. If such change were to occur, it wanted to be part of a Unitary Authority including those contiguous parts of Surrey, Berkshire and Hampshire that were part of the Blackwater Valley.

There are challenges in pursuing such a Unitary Authority objective in the short term.

First, the Council's likely partners do not appear to be enthusiastic (at least in the short term). Many would prefer to pursue partnership-based options.

Second, establishing Unitaries based on County boundaries is hard enough. Basing them on a local economic community of interest would mean going across existing County boundaries which would make the task even harder!

Third, (although more speculative) the Conservative Party has made it plain that if it becomes the Government, it will not only put an end to any new unitary proposals, it will abandon those that are currently in train.

While unitary local government has been the Council's preferred option in the past to achieve significant and radical governance change, it does not seem achievable in the near term and certainly not in time to address the Council's pending financial challenges.

- 22.2 **The Shared Management Model**

This is where two (or more) authorities agree to merge first, their Chief Executives role, then their management roles (or the other way around), and finally, all staff and operations. A number of District Councils have travelled down this route and with some success.

There is an important point to grasp with this option. Such a journey is along a one way street and the car has no reverse gear! The further you travel down this road, the harder it is to back out of it and enter into other voluntary arrangements.

Certainly there is an affinity with neighbouring Councils. But what if the most likely partners are in another County? The whole issue of cross boundary associations only serves to compound what is an already challenging proposition as it would do with a unitary approach.

Even if the cross-boundary issues are cleared away, there remains the issue of willing partners. Even so, this is a more achievable option in the shorter term than establishing a Unitary.

22.3 A Public Service Village

This is about bringing all local public services together in one place under a single identity or brand. In our case, it could mean turning the public land holdings east of Knoll Road into a “Surrey Heath Public Service Village”, with the Borough, the County, the Police and other local arms of central agencies, along with other local public facilities being co-located and co-managed. There are a number of examples of such co-location and co-management in operation. In the Council’s case, serious discussions have recommenced with Surrey Police over the relocation of the local neighbourhood operations into Surrey Heath House. This could be a first step towards the creation of a local ‘Public Service Village’.

A future scenario could look like this;

The Government abolishes a welter of sub-regional planning and economic development agencies. It also looks at the results of the ‘Total Place’ research. (‘Total Place’ is the idea of pooling all local and central public expenditure in a region around certain services, such as, say, preventing anti-social behaviour, and then using the pooled budgets to produce better outcomes at a cheaper cost.)

It decides that County Councils and Unitaries will have strategic responsibility for managing such overlaps and that delivery will be based in the boroughs and districts.

Now, if that scenario were to be put alongside the Public Service Village concept, it could achieve the goal of significant and radical change to the delivery of local public services, based on (and out of) the local Council.

This is a possible option in the medium term. It would need co-ordinated leadership from both central and local politicians.

22.4 Partnership Working

Earlier this year, the Executive decided that it should be more inclined to enter into arrangements on the basis set out in the Background section of this report. That approach has been followed, but it is slow

progress. There is a need to narrow down the range of partnership possibilities so that there can be a focus on those that offer the best prospects. In narrowing down that range of partners, it is suggested that the key determinant should be local economic and community linkages. In Surrey Heath's case that would mean looking west rather than east, but not exclusively so.

22.5 Outsourcing

This would be partnerships in a private context. It would involve entering into commercial arrangements with providers (who could be companies or arms-length Council entities) to provide services for a fixed cost for a fixed term

Those possibilities have been investigated. One major issue to emerge in relation to private providers has been the relatively small scale of our operation. For some of the larger private operators, it is size and scale of prospective partners that matters. Even so, it remains an option for parts of our internal service provision, and is specifically referred to as a possibility in the Corporate Services Three Year Change Programme.

But there is another side to outsourcing. Every time you outsource, you exchange certainty of cost, for loss of control. You make initial savings, but reduce your room for manoeuvre as the costs you can directly control are diminished. Not only that, you reduce the base on which you can spread your remaining fixed costs such as pension contributions.

The Council has seen both the good in outsourcing (the Arena Leisure Centre contract which actually sees some income returning to the Council), as well as the bad (a loss of revenue opportunities in our grounds maintenance contract).

The Longer Term Path

23. While becoming part of a Unitary Authority based on a local economic community of interest is neither likely nor achievable in the near term, no permanent arrangements (of either governance or delivery) should be entered into that would compromise such an option in the future.

Based on that longer term Unitary Authority aspiration, the Executive is asked to agree to the following approach.

23.1 A Surrey Heath Public Service Village

This will mean developing a 'village' of local public service activities on the basis set out in para 22.3 above and centred in the first instance on co-location in Surrey Heath House. In terms of longer term direction, this should be seen as the Council's most pressing task, and for these reasons:

23.1.1 In both its current and draft Corporate Plan, development of the Camberley Town Centre is a top priority. The Executive has made it plain that it is determined to have a

strong and vibrant local public service presence as part of that, and in a way that builds on recent developments such as The Atrium, and planned developments on both the A30 frontage and adjacent to the Railway Station.

23.1.2 While systems of local governance may come and go, the services and facilities attached to them tend to endure for much longer. Whatever the future shape of local government in Surrey Heath, there is a need to ensure that there is a permanent and enduring presence for local public services in Surrey Heath, headquartered in Camberley.

23.1.3 Service to the community is paramount. The Council must do all it can to ensure that not only that all Surrey Heath local public services are headquartered in Camberley, and that they are also co-managed and co-located in way that gives the best possible integrated service to its customers and citizens: the creation of a One Stop Shop in a Public Service Village.

23.2 Establishing 'Preferred Partners'

On the basis that they could be a part of a preferred Unitary Structure, the Council should engage in discussions with those of its neighbouring authorities where there are strong economic and community linkages to establish mutual willingness and ability to be 'Preferred Partners' in developing models and systems of collaborative working. Where such willingness and ability is apparent, then the Executive should give partnership preference to those Councils in developing arrangements based on the test of mutual self interest.

23.3 Consider other Partnership Arrangements Including Outsourcing

In addition to arrangements with Councils that are Preferred Partners, the Council should consider other partnership prospects that are consistent with the principles outlined earlier, and that would make sense under either a unitary approach or a Surrey Heath Public Sector Village approach, or other preferred approach. Equally, it should resist approaches that would be inconsistent with those principles and/or its desired end point.

The Executive should consider net benefit outsourcing options that contain clear exit paths should future circumstances necessitate it. For example, there would need to be clear conditions and period of notice in place specifying acceptable exit arrangements before it was decided to outsource any service.

23.4 Look for Opportunities in a Shared Management Model

The Executive should carefully consider examples where shared management models have been operating. If it considers that such an approach could work at Surrey Heath, then at the appropriate point, it should either initiate discussions with neighbouring Councils, or be open to approaches from such Councils to implement mutually acceptable shared management models.

23.5 Over the Next 1-2 years – Remain Focused on Internal Restructuring

The emphasis will shift from Corporate Services to Customer Services, which will:

- Set clear objectives and goals to be achieved over the next 1-2 years.
- Be an integrated review of all its services, recognising that those that have recently been extensively reviewed will have a lighter touch than those that have not, such as Community Services.
- Have a strong project management focus.

In that review, there will be clear and explicit linkages to what is resulting from (and may impact on) Corporate Services, as well as from the Key Priorities that will be contained in the Councils upcoming 2020 Corporate Plan.

In addition, the Council should rework its budgeting approach to ensure that there is:

- A focus on establishing the source and quantum of income first, rather than on establishing costs, with special attention being paid to aligning the outcome of the 2011-14 CSR to internal funding levels for Council services.
- Service incentives in place to ensure revenue maximisation and resource minimisation.
- A more rigorous assessment of variances to enable clarification of overs and unders.

Options

24. The Executive could:
- (a) Decide not to take a view on its longer term future
 - (b) Select a different combination of the options listed in Para 22
 - (c) Select different options other than those in Para 22

Resource Implications

25. Resources may be required to negotiate the entry of other partners to share Surrey Heath House. Resources have already been allocated for the development of land east of Knoll Road proposals (LEKR).

Recommendations

The Executive is advised to RESOLVE that it:-

- (a) Confirms its longer term preference for a unitary structure, based on a local economic community of interest.
- (b) Commits to establishing strong and continuing presence for local public services both based on a 'Public Service Village' model based in the first instance on co-location in Surrey Heath House.
- (c) Undertakes to identify Preferred Partners from adjacent Councils that could be part of a future unitary structure where there are strong economic and community linkages to establish mutual willingness with whom long term partnership arrangements will be sought. These may then lead to shared management arrangements.

- (d) Pursues other partnership opportunities (including outsourcing) that can be terminated in good order should they not be compatible with the longer term desired unitary approach.
- (e) Continues to implement internal restructuring opportunities over the short to medium term that will protect and maintain the Council's financial sustainability.
- (f) Supports reviewing the budgeting process to achieve:
 - (i) A focus on establishing the source and quantum of income first, rather than on establishing costs.
 - (ii) Service incentives in place to ensure revenue maximisation and resource minimisation.
 - (iii) A more rigorous assessment of variances to more effectively address overs and unders.

Background Papers: None

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Appendix 1

Moderate case assumptions

	2010-11 %	2011-12 %	2012-13 %	2013-14 %
Pay Inflation	1.00	1.00	1.50	2.00
Pensions	8.5% increase in employers' contribution from 2011-12			
Non pay inflation	1.50	2.50	2.75	2.75
Capital charges	---	---	---	---
AEF	2.10	-3.00	-3.00	-3.00
Fees and charges	---	---	---	---
Other income	---	---	---	---

Footnote 2: AEF stands for Annual External Funding (e.g., Government funding)

Trend lines for Best, Moderate, and Worst case total District Council scenarios

