

This report will be made public on 12 September 2023

Report Number **C/23/37**

To: Cabinet
Date: 20 September 2023
Status: Key Decision
Responsible Officer: Lydia Morrison, Interim Director – Corporate Services (s151)
Cabinet Member: Councillor Tim Prater, Deputy Leader and Cabinet Member for Finance and Governance

SUBJECT: Transformation 2023-25

SUMMARY:

The report sets out an approach to transformation spanning a two-year period. The transformation seeks to reduce management duplication, improve efficiency, ensure that organisation capacity is focused on the Council's priorities, and deliver financial savings by making the best use of IT, Premises, Asset & Contract Management and reducing the overall number of staff across the Council.

REASONS FOR RECOMMENDATIONS:

The delivery of savings associated with the transformation programme is key to supporting the Council in closing the projected financial gap in future years.

Cabinet is asked to consider the matters raised in this report as it is essential that the Council has the appropriate capacity, leadership, and accountability in place to deliver change and the necessary financial savings at pace.

RECOMMENDATIONS:

1. To receive and note report C/23/37 regarding the Council's transformation plan.
2. Recommend to Council the creation of a £1.5 million transformation fund in the budget for 2023/24, drawn from existing reserves.
3. To note that Personnel Committee will be advised on the relevant matters of detail at their meeting on 21st September.

1. INTRODUCTION & BACKGROUND

- 1.1 Over the last few years, the council has embarked upon a Council-wide programme of improvement to address a number of performance, financial and cultural matters in order to deliver improved outcomes for residents, investors, and visitors to the district.
- 1.2 This Council, like many others, is facing financial challenges over the medium term and maintaining the status quo is not an option. The Council has never stood still in its search for efficiency and better public service, and tough times are expected to continue.
- 1.3 The updated Medium Term Financial Strategy (MTFS) reported to Cabinet and Council in November 2022, highlighted the need to achieve significant savings with reduced resources, whilst demand for services and demographic pressures continue to increase. The challenges for service re-design and delivery, alongside significant financial constraints, have necessitated a thorough review of services across the Council.
- 1.4 There continues to be long-term pressures on the council's finances. The current strategy has been developed in the context of an ongoing period of uncertainty with the war in Ukraine, the effects of the current economic climate including energy price rises, cost of living crisis, increasing demand for services, and a combination of continued downward projections of central government support for local authorities with inflation running at high levels, interest rates and the cost of borrowing continuing to rise rapidly.
- 1.5 The current MTFS forecasts a cumulative funding gap of £18.5 million over its lifetime to 2026/27. Much of this pressure is faced year-on-year and therefore needs to be addressed through the base budget in the early part of each year to have most impact. The Council does have reserves to help mitigate the impact of the deficits in the MTFS, but these reserves will diminish over time and are not sufficient (at this point in time) to absorb the deficit over the four-year period.
- 1.6 The transformation programme will involve service specific and council-wide changes that can be categorised along the following lines:
 - Establishment and Staffing review.
 - ICT/Digital Improvements.
 - Premises.
 - Assets and Contract Review.
- 1.7 The transformation will deliver financial savings and result in a Council that is efficient, delivers political priorities, and is fit to serve its community in the context of reduced resources in a model that aims to:
 - Improve front-line service delivery;
 - Make best use of IT;
 - Improve accountability;
 - Improve resilience; and
 - Ensure effective management span of control.

2 NEW COUNCIL COMMITTEE SYSTEM & STRUCTURE

- 2.1 On 21 June 2023 Council agreed to establish a committee system for decision making with politically balanced committees under powers delegated by full council. Therefore, the Council's transformation will support service delivery and respond to the implementation of a new committee system.
- 2.2 The four strategic objectives are to:
- Reduce the size of the Council's corporate leadership team (CLT), improving its strategic leadership capability and concentrating on critical issues and financial sustainability.
 - Reduce the tiers of the senior management team (SMT) and seek a more proportionate and consistent span of responsibility with accountability at senior management level by integrating functions into a smaller number of teams.
 - Streamline a range of corporate service functions, and
 - Make substantial changes in how the Council delivers statutory services, reviewing discretionary spend in order to deliver necessary budget savings.
- 2.3 CLT will seek to reduce revenue expenditure or increase income wherever reasonably possible before reducing staff posts.
- 2.4 No areas of Council business, whether statutory or non-statutory, are protected from necessary change but that does not mean savings will come from each area equally; relevant considerations regarding the Council's statutory responsibilities, robust governance and business continuity will be considered.
- 2.5 The Council will continue to meet its statutory responsibilities but, outside of that, some services will inevitably need to be decommissioned; this means that we will do less for less or only continue to function 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 fewer resources) will be identified, but this will not be sufficient alone to address the scale of financial challenge.

3. FINANCIAL CONSIDERATIONS

- 3.1 There will be significant initial one off cost to deliver the transformation and savings associated with the programme and these will need to be approved through the normal financial approval process governed by the budget and policy framework.
- 3.2 Decisions on specific budget savings to deliver the MTFS gap are executive functions which will require approval from Cabinet and subsequently Council as the overall budget is set. Once executive decisions are made, it is for the Chief Executive to agree how staff resources are deployed and any compulsory or voluntary redundancies that result.

- 3.3 The potential costs of redundancies (and any associated pension strain) have been estimated based on work to date. Reserves of up to £1.5m will need to be repurposed to create a transformation fund, which Cabinet is asked to recommend to Council for inclusion in the 2023/24 budget as the majority of redundancies will need to be made by April 2024 for the full effect of the savings to be secured.
- 3.4 In terms of further supporting detail, Personnel Committee is considering the matter at its next meeting on 21st September 2023.
- 3.5 Given the scale of the budget pressure, it is also proposed that priority be given to proposals that deliver the most immediate financial savings.
- 3.6 A recent change in the HM Revenue & Customs (HMRC) guidance (following a number of Tribunal decisions) has implications for how local authorities should consider their VAT obligations and liabilities. Following several appeals by local authorities across the UK, HMRC has changed its position on whether local authorities should treat the provision of leisure services as "non-business activity" for VAT purposes. The Council submitted a backdated claim to HMRC for a refund of such VAT for the past four years, which was successful, and the Council received a net repayment amount of £405,542. The recommendation (para 3.9 below) is to transfer the one-off windfall amount into the transformation fund/reserve.
- 3.7 The Council holds a range of Reserves for a variety of reasons. The actual number and value fluctuate over the year as monies are spent on projects, new money is received from funders (most often from Government but not exclusively) and new reserves are created to respond to changing financial pressures. The Reserves are held as funding for specific projects, against known or potential expenditure or to meet future costs or allow for service developments and to allow value for money improvements.
- 3.8 A review of the Council reserve has taken place to consider the forecast use of reserves and to ensure that the Council retains a prudent level of reserves over the medium term. The review was carried out in a number of stages:
- To understand the spending plans regarding the current reserves over the next few years.
 - Consider what level of general balances that FHDC should hold, based on a risk assessment.
 - identifying those reserves that are ringfenced as they have specific grant objectives to deliver
 - considering what strategic earmarked reserves FHDC should hold.
- 3.9 After carrying out a risk assessment, which indicates that there are reserves that can be earmarked for the transformation purpose, it is proposed that the Council transfer £1.095m into the transformation fund to meet future redundancy or pension fund strain costs that may be incurred. The proposed allocations of reserves will retain flexibility in how the Council uses the fund in the future and also puts in place mitigations for risks the Council may face.

- 3.10 The s151 Officer having reviewed current earmarked reserves recommends transfers (into the new Transformation Fund/Reserve) as detailed in the table below:

<u>Description</u>	<u>Current £000</u>	<u>Transfer £000</u>	<u>Balance £000</u>
Earmarked Reserve:			
Corporate Initiatives	687	500	187
Climate Change	4,656	595	4,061
VAT Backdated Claim	405	405	-
Total	5,748	1,500	4,248

5. RISK MANAGEMENT ISSUES

- 5.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Budget is not made available by Council	High	Low	Additional resources would be needed which would result in immediate budget reductions or use of reserves. The budget should enable the ongoing proactive management and prioritisation of the council's resources.
Insufficient budget is made available	High	Low	Additional resources would be needed which would result in immediate budget reductions or use of earmarked/general reserves.
Management action is slow resulting in savings not made quickly enough to address the immediate budget deficit and overall MTFS gap	Medium	Low	Transformation Plan is expected to deliver further savings going forward as part of the next MTFS and to address the budget gap along with cross working across the Council to deliver the savings on an ongoing basis.

Perceived risk	Seriousness	Likelihood	Preventative action
Assumptions may be inaccurate.	High	Medium	Transaction plan will be subject to regular monitoring and developments tracked and regularly reviewed.

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 Legal Officer's Comments – (AK)

There are no legal implications arising directly out of this report other than those already stated therein.

6.2 Finance Officer's Comments (OO)

The financial implications are set out in the body of the report. Personnel Committee will be advised of the relevant matters and provision will need to be made for one-off costs that will be incurred to deliver the establishment changes. There will be financial implications attached to other elements of the Transformation Programme and these will be identified as each element progresses. These implications will be reported to the Cabinet as part of future update reports and as each element with budget implications is presented for Council consideration and approval.

6.3 Diversities and Equalities Implications (AH)

The report does not require an Equity Impact Assessment.

6.4 Climate Change Implications (AH)

No implications arise directly from this report.

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting.

Ola Owolabi, CFSO

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The following background documents have been relied upon in the preparation of this report:

Medium-Term Financial Strategy – [Cabinet November 2022](#)

Senior Management Restructure – Personnel Committee Report 21st September 2023