

# Council

Date: **Tuesday 27 May 2014**

Time: **10:00am**

Venue: **Council Chamber, County Hall, Norwich**

## Supplementary Agenda

7. **Recommendations from Cabinet Replenishment of General Reserve.** (Page B2)  
Report by the Interim Head of finance.

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## Replenishment of General Reserve

### Report by the Interim Head of Finance

#### Summary

Since the start of April, the following events have taken place with regard to the Willows:

1. Cabinet, of **April 7** 2014 agreed the following relevant recommendations:
  - To resolve not to replace the existing cap on breakage costs for planning failure with the escalator cap and to allow the Contract to terminate for planning failure on 01 May 2014;.
  - To note that the termination cost will be funded from the provision in the budget and using the general reserve and to put in place arrangements to identify funding sources to bring the general reserve up to the minimum level agreed by the County Council and that the identification of funding sources, to restore the general reserve, will be reported to Cabinet on 12 May 2014.
2. Cabinet of **May 12** recommended £30.3m of savings, with an 'either/or' option for £1m of that total, to the May 27 Council
3. The hedging arrangements were fixed on **May 16**, at £11.8m, which was £3.4m higher than the £8.4m estimate. As a consequence, the amount required by the Council now stands at £33.7m.
4. The May 12 Cabinet decision was 'called-in' and at the meeting which took place on **May 20**, Cabinet Scrutiny agreed two recommendations:
  - Cabinet Scrutiny Committee resolves to send the Cabinet's called in decision back to Cabinet with the recommendation that they review it, in particular the service cuts identified in the call-in and this detailed report as being ill-thought through and provocative (road patching, library book fund, 2nd homes monies) and substitutes that small amount of money with funding not involving service cuts. (by 13 votes to 2)
  - Cabinet should decide immediately to offer to sell the Willows site at valuation to the West Norfolk Borough Council." (by 9 votes to 3 with 3 abstentions)
5. The Special Cabinet of **May 21** considered the recommendations of the Cabinet Scrutiny, and resolved:
  - To note Cabinet Scrutiny's first recommendation and ask that the Leader, in conjunction with officers, brings a recommendation to Full Council on Tuesday 27 May 2014 to address the full remaining shortfall of £4.7m [£33.7m less £29m] and delegate to the Leader on behalf of the Cabinet, to the extent necessary any changes which fall within the remit of Cabinet (as opposed to Full Council) to determine.

- That with regard to resolution two, that the interim Director of Environment, Transport and Development and the Interim Head of Finance bring reports to the respective Environment, Development and Transport and Policy and Resources Committees at the earliest practical opportunity.

6 This report sets out the savings to generate the necessary funds to restore the general reserve as agreed in the first recommendation of the May 21 Cabinet.

## Recommendations

County Council:

- 1 Note the 2013-14 and 2014-15 savings agreed by Cabinet of £11.26m set out at Table 2;
- 2 Agree that the 2013-14 and 2014-15 budgets are reduced by £3.44m as set out at Table 2;
- 3 That, if savings options which have less direct impact on services emerge during 2014, substitution of these is an acceptable policy option.

### 1. Amount to be Paid and by When

- 1.1 The amount to be paid for termination for planning failure is £33.7m. It becomes payable some forty business days after termination which would be on the July 14th.

### 2. The Funding of the Amount to be Paid

- 2.1 The Council entered 2014-15 with a £19m residual waste treatment contract earmarked reserve as approved by February County Council (£11m at 31st March 2014 and an £8m contribution on 1<sup>st</sup> April 2014). This leaves **£14.7m** to be identified, as follows:

Total to be paid	£33.7m
Previously identified funding	<u>£19.0m</u>
This report funding	£14.7m

- 2.2 The individual items that make up the various savings are set out in Table 2. There are four new items.

- Work on the 2013-14 outturn has been developing since March, and it is now possible to confirm an underspend of £1.29m.
- New waste procurements and arrangements, shortly to be agreed, are projected to deliver around £0.65m this financial year.
- A claim relating to household waste has been the subject of negotiation for three years, and it is the view that, with the passage of time, any settlement will be at a lower figure, saving £1m.
- Further discussions with Norse have been fruitful. An additional £500K contribution, subject to satisfactory trading position. Consequently, to be paid in Feb/ Mar 2015

- 2.3 The ability to substitute savings for options that emerge with a less direct impact on services, has been illustrated by the emergence of the new items set out at 2.2. The Cabinet report of 12 May, on replenishing the reserves, highlighted two options of

meeting what was then a £1m estimated shortfall. These were to reduce the second homes monies currently earmarked to be paid to the District Councils of £1m or to make savings from roads maintenance and the Library book fund. Cabinet agreed that the final decision should be subject to hearing further representations from District Councils and those affected by the recommendation.

- 2.4 The background to the current treatment of second homes monies is as follows. The Local Government Act 2003 contained provisions enabling council tax billing authorities to reduce the automatic half price discount that second house owners then enjoyed.

From April 2004, Norfolk District Councils agreed to reduce the council tax discount available on 2<sup>nd</sup> homes. The law provided that the money be shared between the three major authorities – the District Council, the Police Authority and the County Council - divided approximately as follows:

- 10% - remains with the District that collected the tax;
- 10% - to Norfolk Constabulary;
- 80% - to Norfolk County Council.

However it was agreed locally that County Council would use its 80% allocation in the following way:

- half was held in a County Fund for all LSPs (Local Strategic Partnerships) to bid against;
- half was returned to the area that collected the monies, for use in supporting LSP objectives.

Over time the specific use of the fund by both County and Districts has been refined although the fundamental basis behind the sharing arrangements has not altered.

- 2.5 The feedback received – as reported to Cabinet, highlighted District concerns that such an in-year reduction would present a range of difficulties that the passing of this option in-year would bring. Following consideration of this matter, as part of a Scrutiny Committee call in, Cabinet Members asked that officers should look again and bring forward options that may have less impact on services, but which would also enable the Council to meet the totality of the shortfall figure, as set out at 2.1.

Officers have done so, and the new items set out in 2.2. enable the Council to close the gap without the need to seek assistance from District Council's in 2014/15. However, given the stark funding position for the next few years, the authority will need to build on the very constructive discussions of the past few days, and work collaboratively with District partners to consider the proposals signalled in this year's budget to change the current arrangements for 2015/16 and 2016/17.

- 2.6 The alternative option of savings in the Library Book Fund and Roads maintenance, remain, with the proviso that these would be prioritised for substitution with other savings options which have a less direct impact on services, should those emerge later in the year.

**Table 2: Savings by individual amounts £m**

	Cabinet	Council	Total
<b>Savings in 2013-14</b>			9.35
<i>1 – Cabinet Approved</i>			
2013-14 underspend (April Cabinet report)	3.19		
2013-14 Government capitalisation refund	1.08		
Earmarked Reserve (organisational change)	1.00		
Earmarked Reserve (car lease scheme)	0.25		
Earmarked Reserve (Icelandic banks)	0.29		
Services, reductions from Directorates – see Annex 1a for detail	0.81		
<b>New</b> - Outturn 2013-14 now confirmed	1.29		
<i>2 - subject to County Council Approval. Carried forward from approved 13-14 budget</i>			
Community Construction Fund		0.46	
Housing revenue development fund – site sales releases revenue fund		0.98	
<b>Savings in 2014-15</b>			5.35
<i>3 – Cabinet Approved</i>			
Norse contribution	0.50		
Sale of Property	0.70		
<b>New</b> - further Norse contribution	0.50		
<b>New</b> - new waste procurement arrangements	0.65		
<b>New</b> - Household Waste 'reserve'	1.00		
<i>4 - subject to County Council Approval</i>			
Reduction in funding set aside for redundancies based on past trends		1.00	
Services, reductions from Directorates – Libraries £0.14m, Road Maintenance £0.86m		1.00	
Options that deliver £14.7m	11.26	3.44	14.70

### 3. Impact on Services

- 3.1 As reported to Cabinet on 2 September 2013, the County Council was facing a forecast shortfall of £189m over the three years 2014-17. In approving the budget, the February 2014 County Council meeting agreed a balanced budget for 2014-15, identified £19m in a reserve for then possible termination costs of the waste contract and reduced the projected shortfall for 2015-17 to some £22m.
- 3.2 Since then the County Council has now more certainty on the outturn position for 2013-14. This includes additional grant funding from the Government which was not known about when the budget was approved and enables further funding to be set aside for the termination cost. The savings identified in Table 2 have been split between those that have been delivered in 2013-14 (some subject to County Council approval) and those that can be achieved in 2014-15.

- 3.3 The 2013-14 savings are a mixture of underspends in 2013-14 forecast in the April Cabinet report, a review of earmarked reserves as part of closing the 2013-14 accounts, and further underspends/savings identified by directorates. The 2013-14 budget included funds for the Community Construction Fund and the Housing Revenue Development Fund. It is proposed that, as the £1.44m budgets have not been spent in 2013-14, rather than carrying forward the monies to be spent in 2014-15, the Cabinet is recommending to County Council that this previously planned expenditure is cancelled and the released funding is used to replenish the general reserve.
- 3.4 In order to identify the required funding, Cabinet recommended to County Council that that the 2014-15 budget is reduced by £2.0m, as follows:
- Following a review of the cost of redundancies and based on past trends, it is estimated that £1m can be released from the funding provision for redundancies.
  - Savings of £140k and £860k from the £1.2m Library Book Fund, and Roads Maintenance, are also recommended. The reduction in road maintenance, although only a one-off cut, will result in fewer repairs being undertaken this year and so see a worsening condition in some roads.
- 3.5 Whilst savings have been identified to fund the termination cost, these come at an opportunity cost to the County Council, as they will not be available to mitigate the impact of current budget reductions, for example, in adult social care; or to mitigate the impact on front line services of further government funding reductions; or support the transformation programme to change the organisation

#### 4. **Resource Implications – Finance**

- 4.1 On the basis that Cabinet and, where necessary, County Council approves the saving proposals set out in Table 2, these savings will be transferred into the residual waste treatment contract reserve, to meet the £33.7m cost.
- 4.2 The possibility, raised by local MPs, that in the event of a termination the Government would look favourably on assisting the County Council with the termination cost, has come to nothing.

#### 5. **Other Implications**

##### 5.1 **Equality Impact Assessment (EqIA)**

The additional savings that have been delivered in 2013-14 have no specific equality issues other than in some instances stopping planned programmes earlier than expected. Of the additional savings in 2014-15, the reduction in the highways patching budget and library book fund may have a disproportionate impact on some residents. The mitigation action as set out in the third recommendation is for Chief Officers, if possible, to identify alternative savings during 2014-15 which could then be substituted for these savings.

##### 5.2 **Communications**

Due to the ongoing interest in the residual waste service and the scale of the required savings being identified it is likely that the nature of the recommendations and any subsequent decision will attract a high degree of interest.

##### 5.3 **Environmental Implications**

There are no issues arising from this report.

#### 5.4 **Section 17 – Crime and Disorder Act**

There are no issues arising from this report.

### 6. **Risk Implications / Assessment**

- 6.1 If the Council does not identify the savings quickly, it faces the risk that it may not have sufficient financial resources to manage any unforeseen expenditure outside of the approved revenue and capital budgets.

### 7. **Alternative Options**

- 7.1 The County Council could decide not to agree the proposals recommended in this report and request that alternative savings be identified.  
A failure to provide the funding source before July 14, would leave the Council with only £5m in its General Reserve; this is clearly inadequate, apart from negating the reserves policy agreed in February by full Council. The reputational damage would be sufficient to question the Council's ability to deliver in other areas of its service provision, with consequential unintended consequences.
- 7.2 Given full Council has the option of replacing any agreed saving during 2014, there is every reason for approving the recommendations.

### 8. **Reason For Decision**

- 8.1 Cabinet on 7 April 2014 agreed to terminate the residual waste treatment contract and to use the general reserve to fund part of the termination costs. This report identifies savings to quickly replenish the general reserve to the minimum level previously approved by County Council.

### 9. **Recommendation**

- 9.1 County Council:
- Note the 2013-14 and 2014-15 savings agreed by Cabinet of £11.26m set out at Table 2;
  - Agree that the 2013-14 and 2014-15 budgets are reduced by £3.44m as set out at Table 2;
  - That, if savings options which have less direct impact on services emerge during 2014, substitution of these is an acceptable policy option.

#### **Officer Contact**

If you have any questions about matters contained in this paper please get in touch with:

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## Annex 1      Service Reductions from Directorates

<b>Directorates</b>	£m
ETD – review of ETD reserves	0.500
Fire u/s 2013-14	0.050
Resources – see below	0.260
	<u>0.810</u>

<b>Resources</b>	£m
Procurement	0.030
NP Law	0.090
Comms	0.050
HR	0.050
Democratic Services	0.010
Finance	0.030
	<u>0.260</u>