

Committee: Overview and Scrutiny Commission

5 April 2016

Wards: ALL

Subject: Review of weightings used to determine departmental savings

Lead officer: Caroline Holland

Lead member: Councillor Mark Allison

Contact officer: Paul Dale

Reason for urgency

The Chair has approved the submission of this report as a matter of urgency. This is because it provides the Commission with the information required in order to respond to the referral on this issue from Council.

Recommendations:

1. That the Panel considers the weightings used to determine the distribution of departmental savings required to balance the budget and provides comments.
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1. Purpose of report and executive summary

- 1.1 This report sets out details relating to the weightings used to determine departmental savings targets and their appropriateness in relation to the previously approved "July principles" as requested by the Commission.

2. Details - Revenue

- 2.1 At the Council meeting on 18 November 2015 the following motion was resolved:-

"Noting the current budget process is already well under way with savings targets for the Medium Term Financial Strategy from 2016/17 to 2019/20 already scrutinised by each of the scrutiny panels in October and November this year with no changes agreed, this Council resolves to ask the Overview and Scrutiny Commission to review, in line with its usual practice of scrutinising all aspects of the budget proposals including deliverability and risk, the weightings used to determine departmental savings targets and their appropriateness in relation to the previously approved "July principles" which were voted for by all parties on the council with the exception of the Conservative Group - bearing in mind that the weightings have been agreed by Council in each of the past five years and that, unless the council tax is increased, reductions to savings in one area will mean more cuts are needed in other areas, particularly environmental services - in detail at a date after its next meeting on 24 November 2015, and thereafter as is usual on an annual basis as part of the usual scrutiny process regardless of which administration is in office."

- 2.2 The requirement to set a balanced revenue budget means that most, if not all, Councils require a mechanism to allocate and identify savings in order to reduce

their budget forecast in line with forecasts of resources, particularly in recent years which have seen significant reductions in grant funding from central government and limitations to the amount that council tax can be increased.

- 2.3 As part of its business planning approach and the development of the medium term financial strategy, Merton has similarly employed various mechanisms to set savings targets in order that it can set a balanced budget. In recent years this has included the ambition to balance the budget over the four year period of the MTFS.
- 2.4 Since 2010/11, with the exception of 2012/13, Merton has used departmental controllable budgets which have been weighted to allocate savings between departments in the ratio Corporate Services, Environment and Regeneration, Community and Housing, and Children, Schools and Families of 1.5 : 1.5 : 1.0 : 0.75 to reduce the impact on Adult Social Care, Children's Social Care and vulnerable groups. This is just one method of resource allocation.
- 2.5 Merton has used the following methodologies for calculating departmental savings targets in recent years:-

2007/08	The budget gap was shared between departments pro rata to their direct variable expenditure budget
2008/09	Variable budget – Departments were asked to produce savings @ 5%, 10% and 15% and Star Chambers were used to select savings across departments to meet balance the budget.
2009/10	Controllable budgets, again with 5%, 10% and 15% savings targets with Star Chambers reviewing and selecting savings to balance the budget.
2010/11	Controllable budgets, weighted in the ratio Corporate Services, Environment and Regeneration, Community and Housing, and Children, Schools and Families in the ratio 1.5 : 1.5 : 1.0 : 0.75
2011/12	Same as 2010/11
2012/13	Budget Pack: Savings for CSF, CH and E&R based on Service Reviews and CS based on major restructuring
2013/14	Same as 2010/11 plus 2% assumed fees and charges income
2014/15	Same as 2010/11 plus 2% assumed fees and charges income
2015/16	Same as 2010/11 plus 2% assumed fees and charges income incorporated into savings targets
2016/17	Same as 2010/11

- 2.6 In years prior to 2010/11, there was no specific method of protecting services to vulnerable groups built into the savings target allocation process, however there was regard taken of the deliverability and reputational risk, which led to some services for vulnerable groups being protected on an ad hoc basis from specific savings proposals on reaching the decision making process.

- 2.7 Since 2010/11 the method of calculating savings targets has specifically protected the two departments serving the most vulnerable groups. From the small sample of other London boroughs used in this report for comparison purposes it appears they do not adopt a similar approach to protecting vulnerable services. It should also be said that Merton is transparent in setting out the methodology used in calculating its savings targets in reports to Cabinet and the detail for future years, but it has been difficult to identify similar details for other London boroughs.
- 2.8 It has been the practice in the past few years that where departments do not identify savings/income to achieve their targets in any year then the balance is carried forward as a starting position in the following budget year.
- 2.9 The availability of fees and charges income to departments is relevant, particularly if there is no allowance made for it in setting the targets. However, the key measure is how departments are performing against their budgeted levels of income and this has been an issue in some areas in recent years.
- 2.10 The Council resolution from the 18 November 2015 meeting refers to reviewing the appropriateness of the weightings used in relation to the “July principles”.
- 2.11 The “July principles” are

Merton should continue to provide a certain level of essential services for residents. The order of priority for ‘must’ services should be:

- (i) Continue to provide everything that is statutory.
- (ii) Maintain services – within limits – to the vulnerable and elderly.

After meeting these obligations Merton should do all we can to help out residents who aspire. This means we should address the following as priorities in this order:

- (i) Maintain clean streets & keep council tax low.
- (ii) Keep Merton as a good place for young people to go to school and grow up.
- (iii) Be the best it can for the local environment.
- (iv) All the rest should be open for discussion.

2.12 **The Effect of Changing Weightings**

The following tables show the share of the latest budget gap on a number of different bases:-

1. Assuming all departments have equal weighting
2. On the weightings basis used since 2010/11 used in the ratio Corporate Services, Environment and Regeneration, Community and Housing, and Children, Schools and Families of 1.5 : 1.5 : 1.0 : 0.75
3. In the ratio Corporate Services, Environment and Regeneration, Community and Housing, and Children, Schools and Families of 1.5 : 1.5 : 1.0 : 1.0

4. In the ratio Corporate Services, Environment and Regeneration, Community and Housing, and Children, Schools and Families of 1.5 : 1.5 : 0.75 : 0.75

Based on the weightings and the 2015/16 controllable expenditure figures used for the 2016/17 budget, the share of savings for each department is set out in the following tables, using the latest MTFS gap of £ 3.5m:-

1. EQUAL

DEPARTMENTAL SAVINGS TARGETS	Controllable Expenditure	Weighting	Weighted	Share of Budget Gap
USING 2015/16 CONTROLLABLE BUDGETS	2015/16 £000	by dept. No.	Controllable £000	Gap £000
Corporate Services	20,197	1.00	20,197	559
Children, Schools and Families	28,273	1.00	28,273	782
Environmental Services	27,993	1.00	27,993	774
Community and Housing	48,959	1.00	48,959	1,354
Total	125,423		125,423	3,469
MTFS Gap 2019/20 (£000)			3,469	

2. CURRENT BASIS

DEPARTMENTAL SAVINGS TARGETS	Controllable Expenditure	Weighting	Weighted	Share of Budget Gap
USING 2015/16 CONTROLLABLE BUDGETS	2015/16 £000	by dept. No.	Controllable £000	Gap £000
Corporate Services	20,197	1.50	30,296	738
Children, Schools and Families	28,273	0.75	21,205	516
Environmental Services	27,993	1.50	41,990	1,023
Community and Housing	48,959	1.00	48,959	1,192
Total	125,423		142,450	3,469
MTFS Gap 2019/20 (£000)			3,469	

The reason that CSF receives greater protection than C&H is because the C&H budget includes services such as libraries and heritage and adult education which are not directly to vulnerable groups whereas CSF is entirely directed at children.

3. CSF & C+H 100%; E+R & CS 150%;

DEPARTMENTAL SAVINGS TARGETS	Controllable Expenditure	Weighting	Weighted	Share of Budget Gap
USING 2015/16 CONTROLLABLE BUDGETS	2015/16 £000	by dept. No.	Controllable £000	Gap £000
Corporate Services	20,197	1.50	30,296	703
Children, Schools and Families	28,273	1.00	28,273	656
Environmental Services	27,993	1.50	41,990	974
Community and Housing	48,959	1.00	48,959	1,136
Total	125,423		149,518	3,469
MTFS Gap 2019/20 (£000)			3,469	

4. CSF + C+H 75%; E&R + CS 150%

DEPARTMENTAL SAVINGS TARGETS	Controllable Expenditure	Weighting	Weighted	Share of Budget Gap
USING 2015/16 CONTROLLABLE BUDGETS	2015/16 £000	by dept. No.	Controllable £000	Gap £000
Corporate Services	20,197	1.50	30,296	807
Children, Schools and Families	28,273	0.75	21,205	565
Environmental Services	27,993	1.50	41,990	1,119
Community and Housing	48,959	0.75	36,719	978
Total	125,423		130,210	3,469
MTFS Gap 2019/20 (£000)			3,469	

2.13 Based on the current gap in the MTFS approved by Council in March 2016 and the 2015/16 controllable budgets and not taking into account any shortfall by departments in achieving previously approved targets, each department would get the following savings target under each of the bases exemplified in paragraph 2.12:-

DEPARTMENTAL SAVINGS TARGETS	EQUAL BASIS 1	BASIS 2 CURRENT	BASIS 3	BASIS 4
SHARE OF SAVINGS UNDER EACH BASIS	£000	£000	£000	£000
Corporate Services	559	738	703	807
Children, Schools and Families	782	516	656	565
Environmental Services	774	1,023	974	1,119
Community and Housing	1,354	1,192	1,136	978
Total	3,469	3,469	3,469	3,469

DEPARTMENTAL SAVINGS TARGETS INCREASE/ (DECREASE) OF SAVINGS UNDER EACH BASIS	EQUAL BASIS	BASIS 2	BASIS 3	BASIS 4
	1	CURRENT		
	£000	£000	£000	£000
Corporate Services	559	179	144	249
Children, Schools and Families	782	-266	-126	-217
Environmental Services	774	248	200	344
Community and Housing	1,354	-162	-218	-376
Total	3,469	-0	0	0

Any shortfall in delivering savings against targets will distort shares so where departments do not identify savings/income to achieve their targets in any year then the balance is carried forward as a starting position in the following budget year.

Any amendment to the weightings proposed would apply to new savings required from 2019/20 as the MTFs is currently balanced up to 2018/19.

2.14 Methods used by neighbouring boroughs in recent budget processes

As previously stated and as indicated in the table in paragraph 2.5, there are various ways available of setting savings targets.

Sutton	The savings total required was split across Directorates on an equal basis of approximately 27% of baseline net direct expenditure (as at 2014/15). No specific reduction for vulnerable groups.
Kingston	Tackling the cuts through innovation and through the Outcomes Based Budgeting process which has identified 8 community outcomes as priorities for Kingston. No specific reduction for vulnerable groups.
Croydon	Significant savings are required. The approach is underpinned by the transformation programme Croydon Challenge, comprising of a number of projects which looks at every aspect of the council. No specific reduction for vulnerable groups.

3. Alternative Options

3.1 As set out in the report.

5. **Consultation undertaken or proposed**

5.1 None.

6. **Timetable**

6.1 This report is presented in accordance with undertakings given following the Council resolution on 18 November 2015

7. **Financial, resource and property implications**

7.1 As set out in the report.

8. **Legal and statutory implications**

8.1 None.

9. **Human Rights, Equalities and Community Cohesion Implications**

9.1 None.

10. **Crime and Disorder implications**

10.1 None.

11. **Risk Management and Health and Safety Implications**

11.1 None

Appendices – the following documents are to be published with this report and form part of the report

There are no appendices for this report.

BACKGROUND PAPERS

12.1 The following documents have been relied on in drawing up this report but do not form part of the report:

Budget working papers 2016/17

13. **REPORT AUTHOR**

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