

**CLACKMANNANSHIRE COUNCIL**

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**Report to Council**

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**Date of Meeting: 9 February, 2017**

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**Subject: Promoting Financial Sustainability – Severance & Redeployment**

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**Report by: Chief Executive & Depute Chief Executive**

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**1.0 Purpose**

- 1.1. The purpose of this report is to brief Council on issues of financial sustainability in the context of its immediate and longer term budget strategy and to propose a change in its approach to employee severance to mitigate the pressures faced.
- 1.2 The report covers matters which were considered at three all member briefings held over December, 2016, and January, 2017.

**2.0 Recommendations**

2.1 It is recommended that Council:

- a) notes the issues of financial sustainability set out in section 4 of this report;
- b) in light of these issues and in order to progress a managed contraction of the organisation's workforce, agrees that compulsory redundancy can be used as a last resort once alternative approaches to severance have been exhausted as set out in section 5 of this report;
- c) subject to the approval of recommendation b) above, agrees to change its policies on severance and redeployment as also set out in section 5 of this report; and
- d) notes consequential changes to associated procedures will be made to reflect these policy decisions.

**3.0 Background**

- 3.1 Council is regularly updated on financial planning assumptions. The Budget Strategy reports submitted to the majority of Council meetings include details of:
  - relevant developments in national and UK policies which might affect the Council's budget
  - indicative funding gaps in the immediate and medium terms
  - financial planning scenarios (low, median and high)

- progress in managed contraction of the workforce using voluntary severance and voluntary redundancy.
- 3.2 The persistence of a large funding gap has been noted by Council over a sustained period and regular MCB and other member briefings have provided background information on the position.
- 3.3 This report provides an overview of the various factors which continue to impact on financial sustainability and asks Council to change its approach to employee severance to assist the organisation realign its operations within the budget envelope which is available to it going forward.

#### 4.0 Financial Sustainability

- 4.1 Council was updated of revised financial planning assumptions and their impact on the indicative funding gap at its meeting in December, 2016. At that time, notice was also given that following announcement of the Scottish Government's Draft Budget for 2017/18, revisions would be made to these assumptions for 2018/19 and 2019/20. Table 1 below, details the revised assumptions flowing from the settlement.

Table 1: Financial Planning Scenarios: Assumptions for 2017/18, 2018/19 and 2019/20

<b>Assumptions</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Reduction in General Revenue Grant	3.5%	5%	5%
Pay award (teaching and non-teaching staff)	1.25%	1.25	1.25
Council tax Income increase	3%	1%	1%
Contract Inflation	£1.3m	£600K	£600k
General Pressures	£1.2m	£1.9m	£2.4m

- 4.2 The key changes to the revised assumptions detailed in Table 1 are:
- a reduction in the General Revenue Grant of 5% in 2018/19 and 2019/20 (previously 3.5%) on the basis that the 2017/18 is anticipated to represent the 'best' settlement year for the public sector over the period;
  - council tax increases of 1% given that the scope for, and of, potential council tax increases for future years is not yet confirmed;
  - a reprofiling of the assumed amounts in respect of contract inflation and general demand pressures in line with new trends over the last few years;

- an increase in the assumed level of general demand pressures reflecting the increasing levels of bids evident over the last few years.

4.3 Additional assumptions are:

- continuation of the Council's share of the additional £250 million funding in respect of HSCI;
- an additional £2million within Social Services core funding;
- an increase in the assumed Council Tax base of 150 properties;
- an estimate of the effect of the increase in the Council Tax multiplier of approximately £1million in 2017/18.

4.4 Table 2 below sets out the revised indicative funding gap on the basis of these refreshed assumptions. This suggests a cumulative indicative funding gap of £10.6 million in 2017/18 and a cumulative indicative gap of £25.8m over the three year period to March 2020. The underpinning assumptions will be kept under regular review, and elected members updated accordingly, as further information is available.

Table 2: Revised Indicative Funding Gap 2017/18 to 2019/20

<b>Year</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Net expenditure	124,007	128,472	133,214
Net funding	113,374	110,302	107,387
Annual Indicative funding gap	10,633	18,170	25,827
Cumulative Indicative funding gap	10,633	7,537	7,657

Reserves

4.5 Over the past five years, Council has utilised reserves, in part, to defray its annual net expenditure. This position is summarised in the table below which quantifies both approved savings (i.e. recurring reductions in net expenditure) and the sums utilised from reserves (i.e. one-off defrayal of expenditure for a year).

Table 3: Analysis of Savings & Use of Reserves 2012/13 to 2016/17

Year	Budget Gap £000	Approved savings £000	Reserves Used £000	Reserves as % of Required Savings per year
2012/13	4.640	1.886	2.754	59
2013/14	7.073	3.970	3.103	44
2014/15	7.345	4.312	3.033	41
2015/16	6.754	3.017	3.737	55
2016/17	9.024	7.645	1.379	15
<b>TOTAL</b>	<b>42.904</b>	<b>28.898</b>	<b>14.006</b>	

- 4.6 The breakdown of the £14 million of reserves summarised in the table above is set out in the following table over the three principal sources utilised:

Table 4: Principal Sources of Reserves Utilised 2012/13 to 2016/17

<b>Breakdown of Use of Reserves</b>			
	<b>Capital Receipts Reserves for PPP £000</b>	<b>Uncommitted Reserves £000</b>	<b>Earmarked Reserves for PPP</b>
2012/13	1.362	1.392	
2013/14	1.562	1.482	0.059
2014/15	1.714	1.319	
2015/16	1.936	1.801	
2016/17	0	1.379	
<b>Total</b>	<b>6.574</b>	<b>7.373</b>	<b>0.059</b>

- 4.7 This approach to reserve utilisation was adopted by Council with the intention of managing the transition to a redesign of Council service delivery. This approach was viewed as acceptable given future budget savings had been anticipated from planned change activity.

- 4.8 However, the financial benefits of the planned change activity have not been fully achieved and in the short term the Council's approach has had the impact of increasing the following year's indicative funding gap equivalent to the level of reserves utilised. Given anticipated future demand pressures and reserve levels, this approach is not considered sustainable.
- 4.9 This has been highlighted by the Council's external auditors who have criticised the Council's pace of change and who reported in September, 2015, that: *The Council has been heavily reliant on reserves for a prolonged period of time. With demographic changes and ongoing demand pressures, we do not believe this approach is financially sustainable in the short to medium term.*
- 4.10 When considering the budget setting strategy, management seeks to maximise the options provided to elected members to deliver the necessary reductions in the Council's net expenditure. In respect of 2017/18 budget setting, at the time of writing (and as reported to the all member briefing held on 24 January, 2017), the following potential savings had been identified by officers:
- policy savings - £2.3m
  - management efficiencies – £2.3m
  - managed contraction of staffing establishment – £1.3m
  - 16/17 approved year 2 savings - £1.1m
- 4.11 Even should Council agree all of those proposals, this would still leave a residual gap of circa £3.5m to be closed. The current level of uncommitted reserves above minimum level of 3% (£2m) would not close the projected gap and if utilised to defray net expenditure, would leave the Council below minimum reserve level and not able to provide a contribution from reserves in future years. And while the Council has an ear-marked revenue reserve of £2.3m in its Employment Fund, utilising this to reduce or close the funding gap would compromise or remove Council's capacity to fund managed contraction of its workforce now and in the future.

#### Achievability of Savings

- 4.12 Regular reports are submitted to Council monitoring the achievement of budget savings in-year. The most significant element of the Council's General Revenue Budget is employment costs so reducing these costs is key to reducing net expenditure. The Council's interim Workforce Strategy agreed in October, 2015, set out the need for the Council to retain its focus on a managed contraction of its workforce to reduce its establishment to sustainable levels.
- 4.13 To date, however, planned reductions in the Council's head count through voluntary means have not been achieved in 2016/17, with the take-up rate for voluntary redundancy being just under a third of that needed to deliver planned savings this financial year.
- 4.14 The low take up is in part due to the limitations of the Council's current approach to severance whereby staff occupying posts which are targeted for voluntary redundancy are not obliged to consider redeployment opportunities if they do not accept voluntary redundancy (since this would represent a compulsory

redundancy). The effect of this is that staff can remain indefinitely occupying a post which could otherwise be deleted while still allowing statutory and priority discretionary services to be delivered.

4.15 In addition, there have been many applications for voluntary severance from staff in posts which would require to be filled. However, as there is no capacity within the current framework to actively redeploy staff at risk of redundancy to posts which better reflect Council priorities, these severance applications cannot be accepted.

4.16 While other measures such as:

- vacancy management
- restrictions on recruitment
- voluntary reductions in hours
- reductions in overtime
- career breaks and sabbaticals
- discontinuing temporary employees
- natural turnover

are being actively used by management to reduce employment costs, there are limits to the extent to which these various opportunistic measures can reduce headcount.

4.17 Also fundamental to achieving an effective and managed reduction in workforce is the Council being explicit about its priorities in terms of service delivery and service standards and then pursuing an organisational design to implement those priorities. This is essential to provide direction as to where to target the headcount reductions and is considered in a separate report to Council.

#### Income Generation

4.18 Considerable effort is invested in maximising the Council's income and a specific priority has been to focus on collection rates for Council Tax and Non Domestic Rates, as well as aiming to maximise the recovery of arrears/debts. This effort will continue to be a priority in the future given ongoing economic pressures.

4.19 However, the potential for the Council to raise income to cover, or to contribute to covering, its funding gap is significantly less than the potential to reduce its expenditure.

4.20 Fees and charges as a proportion of the Council's total revenue funding represent only 7% and the Council does not have complete discretion over the levels of all fees and charges.

4.21 While there may be additional potential sources of grant income (aside from fees and charges), these need to be pursued with caution as such income is usually for a fixed time period and cannot/should not be relied upon to sustain core expenditure on a long term basis.

4.22 Taking into account future financial projections and the existing limitations on the

Council's capacity to achieve the required reduction in its net expenditure, it is proposed that the Council makes certain policy changes in order to promote financial sustainability.

## **5.0 Promoting Sustainability - Severance & Redeployment**

5.1 The voluntary nature of the Council's approach to severance means that it cannot be certain to achieve the potential savings from the managed contraction of its workforce for the reasons set out in the previous section of this report.

5.2 As well as not allowing the Council to make the savings which are required, this prevents effective organisational redesign more widely and risks lower priority services taking resources away from higher priority areas.

5.3 The Council, therefore, needs the facility to have certainty over its planned savings and to implement its desired models and levels of service delivery.

5.4 It is recommended, therefore, that Council agrees that compulsory redundancy based on statutory provisions can be utilised as a last resort once alternative approaches to severance have been exhausted in order to progress a managed contraction of the organisation's workforce and effectively implement service and organisational redesign.

5.5 In addition, as the Council wishes to maintain the employment of as many people as it realistically can, it is further proposed that in tandem with utilising compulsory redundancy as a last resort, some enhancements are made to the existing policy on redeployment. Principally, it is proposed that to maximise opportunities for staff to remain in employment, as well as seeking to redeploy staff into '*suitable alternative employment*', the Council will also seek to redeploy staff into '*reasonable alternative employment*.'

5.6 Suitable alternative employment is built into employment legislation and is a post which is similar to the employee's current post taking into account:

- duties and responsibilities,
- the terms of the job being offered,
- skills, abilities and circumstances in relation to the job,
- pay (including benefits), status, hours and location.

5.7 Suitable alternative employment does not automatically include vacant posts that have a higher grade or salary than that which the employee currently holds.

5.8 In recognition of the fact that there may be circumstances where suitable alternative roles do not become available whilst an employee is on the redeployment register, it is proposed that staff on redeployment can also consider reasonable alternatives to maintain employment within the Council.

5.9 Reasonable alternative employment could include posts that could:

- require similar skills
- be of a different grade,

- offer different hours of work,
- have a different working environment.

5.10 As well as offering reasonable alternative employment options, the Council will also provide support to employees in preparing application forms for jobs and interview skills and by providing reasonable and appropriate training.

5.11 The redeployment period would be the employee's contractual notice period plus 2 weeks. In addition, employees who moved to redeployment could volunteer to take a voluntary redundancy package at any point up to and including the day before their employment is due to end.

5.12 If, however, despite best efforts there is no post for someone to be redeployed into and the employee does not accept voluntary redundancy, then the employee's employment would be terminated by the authority. The Appendix to this report sets out an overview of the proposed process.

## **6.0 Conclusion**

6.1 The Council's financial challenge is such that significant reductions in its workforce are required.

6.2 In order to be able to progress those reductions in a managed way and at a pace which will promote financial sustainability, it is recommended that the changes to severance and redeployment set out in this report are agreed.

6.3 Together with the change in approach to severance, this report also proposes more opportunities for those on redeployment. The Council already offers relatively generous terms and conditions to its employees and the proposals in this report aim to ensure that every practical opportunity is provided to staff to secure an alternative position within the Council and maintain productive employment should their existing posts become at risk of redundancy.

## **7.0 Sustainability Implications**

7.1. The recommendations contained in this report aim to promote the financial sustainability of the Council and its priority services.

## **8.0 Resource Implications**

8.1 *Financial Details* - there are no specific budgetary implications as a direct result of the proposals in this report. However, the proposals seek to offer certainty to the Council in the achievability of any savings it intends to make from reducing its establishment and organisational redesign.

8.3 *Staffing* – there are no specific implications for the number of posts on the Council's establishment as a direct result of this report. However, the proposals seek to facilitate a general managed reduction in the size of the Council's workforce.

**9.0 Exempt Reports** - this report is not exempt.



## 10.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

### (1) Council Policies (Please detail)

Financial Strategy  
Workforce Strategy

## 11.0 Equalities Impact

11.1 Equality issues are part of employment legislation which governs severance and redundancy.

11.2 The trade unions have been consulted on these proposals and enhancements. While they have been broadly supportive of the principle of redeployment, they remain opposed to terminating employment at the end of a specified period on the redeployment register.

## 12.0 Legality

12.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. All processes and procedures related to redundancy and severance will follow the requirements of employment law.

## 13.0 Appendices

1 – Flow Chart

## 14.0 Background Papers

14.1 Have you used other documents to compile your report?

Workforce Strategy, Financial Strategy, Severance Policy & Procedures, Redeployment Policy

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### Approved by

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## Appendix – Flow Chart



