

# METROPOLITAN BOROUGH OF KNOWSLEY

To: The Leader and Members of the Cabinet

Meeting: 24 February 2016

Wards Affected: Borough-wide

Executive Remit: All

Non-Key Decision

## REPORT OF THE EXECUTIVE DIRECTOR (RESOURCES)

### MEDIUM-TERM FINANCIAL STRATEGY

#### 1. PURPOSE OF THE REPORT

- 1.1 This report summarises the financial issues currently affecting the Council and sets out the Council's revised medium-term financial forecasts.
- 1.2 The report provides the financial context within which the Council is required to set its 2016/17 budget and Council Tax, and sets out an approach for the Council to manage its resources over the coming years in line with the priorities set out in the Council's Corporate Plan (as discussed in a report elsewhere on the agenda).

#### 2. RECOMMENDATIONS

Members of the Cabinet are recommended to:-

- (a) Note the planning assumptions used for the revised medium-term financial forecasts set out in sections 4 to 7 of this report;
- (b) Agree that the savings items totalling £0.439m (previously considered by the Cabinet on 16 December 2015) should not now be implemented in view of the outcomes of a public consultation exercise;
- (c) Agree that the remaining savings items (as previously considered by the Cabinet on 16 December 2015) should be implemented in line with the phasing detailed at Appendix A to this report;

- (d) Agree that the phasing of the Public Health savings detailed in paragraph 7.2.3 and Appendix A of this report should be agreed by the Director of Public Health in consultation with the Public Health and Wellbeing Cabinet Member;
- (e) Note the medium-term financial forecasts detailed in paragraph 7.6 of this report as the financial context for preparing budget proposals for 2016/17;
- (f) Approve the approach to reserves and the determination of general balances as set out in section 8 of this report;
- (g) Endorse the proposed performance-based approach to the Council's financial strategy for 2017/18 and future years as outlined in paragraph 9.3 of this report;
- (h) Endorse the proposed Capital Strategy as discussed in paragraph 9.5 of this report and set out in full at Appendix A to this report;
- (i) Request the Council to approve the proposed Annual Pay Policy as discussed in section 10 of this report and set out in full at Appendix B to this report;
- (j) Agree that a Living Wage of £8.25 per hour should be applied to Knowsley Council employees with effect from 1 April 2016 as set out in paragraph 10.4.3 of this report; and,
- (k) Agree that the costs of senior officers should not exceed 3% of the Council's gross expenditure budget as set out in paragraph 10.5.3.

### **3. BACKGROUND**

- 3.1 Progress in the Council's financial strategy for 2016/17 was reported in detail to the Cabinet on 16 December 2015. As a result, an underlying shortfall of £19.9m has been successfully managed through a combination of savings, the success of the Council's business growth plans in generating additional funding, and the phased release of reserves.

- 3.2 The financial projections have since been updated further, mainly to reflect the Local Government Finance Settlement for 2016/17 (which was provisionally announced on 17 December 2015 and finalised on 8 February 2016) and the subsequent announcement of Public Health Grant allocations on 11 February 2016. The most up-to-date forecasts are detailed in this report and now provide the context for the Council's final 2016/17 budget considerations. The report sets out how changes in the Government's approach to allocating funding for local government have improved the funding forecasts for Knowsley, largely because the approach now takes greater account of the amount of funding which can be raised locally – an approach advocated by the Council since 2010. Having addressed the initial forecast of the 2016/17 shortfall on 16 December 2015, the report explains how such improvements in Government funding allocations allow the Council to use the approved savings to help manage its financial strategy over the medium-term.
- 3.3 The report also sets out the Government's funding forecasts for the three years from 2017/18 to 2019/20. The ability to make accurate estimates for 2017/18 and future years is limited, particularly in light of the significant savings measures which must be achieved in the Council's social care services at the same time as managing the impact of increased demand in those areas. In providing four-year funding forecasts the Government is encouraging local authorities to take a longer-term view of budget setting. The report therefore presents the Council's indicative financial forecasts for the period 2017/18 to 2019/20, and outlines how a performance-based financial strategy should be adopted for that period.

#### **4. KEY ISSUES ARISING FROM THE LOCAL GOVERNMENT FINANCE SETTLEMENT**

- 4.1 The key announcements included in the Local Government Finance Settlement (in terms of impact on the Council's financial position) are summarised in the following paragraphs.
- 4.2 *A Revised National Approach to Local Government Cuts*
- 4.2.1 The Government has made a significant change to how it determines reductions in Revenue Support Grant funding, and from 2016/17 will take into account the amount which can be raised locally from Council Tax. This change in approach – advocated by the Council since 2010 - means that local authorities which can raise larger sums through Council Tax will receive a greater percentage cut in Government funding than lower tax base Councils (like Knowsley). This is a major change and reflects the position advocated by Knowsley on behalf of the Liverpool City Region in recent years.

4.2.2 The impact of national cuts in local government funding on areas like Knowsley is still massive. The amount of funding which the Council will continue to lose will still be higher than that lost by more affluent areas, but these changes add a measure of fairness into the funding system which has been missing since 2010.

#### 4.3 *Other Announcements*

##### 4.3.1 *Adult Social Care 'Precept'*

In the 2015 Spending Review, the Chancellor of the Exchequer announced that local authorities would from 2016/17 be able to levy a "social care precept" of up to 2% in Council Tax, which must be spent exclusively on Adult Social Care. Nationally, the Chancellor announced that this was expected to generate additional funding of around £2bn per annum to address Adult Social Care pressures, including the impact of the Government's new National Living Wage policy on social care contracts.

4.3.2 A 2% increase would increase Knowsley's Council Tax yield by about £0.560m (after allowing for potential increased costs in Local Council Tax Support).

##### 4.3.3 *Additional Better Care Funding*

Knowsley is already having to manage pressures from increased demand for Adult Social Care, as well as expected cost increases in Adult Social Care contracts due to the Government's new National Living Wage. The Council estimates that the future unfunded pressures in Adult Social Care will be around £3m per year, so the Government's announcement of the Adult Social Care precept is a highly inadequate solution. Knowsley lobbied the Government on this matter on behalf of the Liverpool City Region following the Government's Spending Review announcement in November 2015.

The Government subsequently announced further measures in the Local Government Finance Settlement to help balance the gap between funding and need. From 2017/18, the Government will provide additional funding for Adult Social Care through the "Improved Better Care Fund". Starting in 2017/18 at £105m, this will be worth £1.5bn per annum by 2019/20. This funding will go to local authorities with Adult Social Care responsibilities, and allocations will take into account the ability of those authorities to raise funding locally as well as local levels of need. Again, this is a positive change and a specific issue on which Knowsley has lobbied.

The Council and the Knowsley Clinical Commissioning Group have agreed to pooled budget arrangements via a Section 75 Agreement for the period to 31 March 2016. These arrangements are currently being reviewed to reflect ongoing requirements and include the continuation of the Better Care Fund in 2016/17. The Council is working closely with the Clinical Commissioning Group to develop joint plans which ensure the continuation of the approach previously agreed, i.e. that the Better Care should be used to sustain adequate support for the Council's Adult Social Care services. The Government has announced largely unchanged allocations of Better Care Fund for Knowsley in 2016/17, and, on this basis the Council's financial forecasts assume that as a minimum there will be a continuation of the current Better Care Fund contributions to Adult Social Care in 2016/17.

#### 4.3.4 *Council Tax Referendum Limits*

The Council Tax referendum limit remains at 2% for local authorities, police authorities and fire authorities. If local authorities also choose to adopt the additional Social Care precept, it must be itemised separately on the Council Tax bill. The Government is not offering a Council Tax Freeze Grant for 2016/17. The effect of that decision and the announcement of the ability to add a 2% precept together give a clear indication that the Government has shifted policy towards an "expectation" of Council Tax increases to fund local services.

#### 4.3.5 *New Homes Bonus*

Knowsley's 2016/17 New Homes Bonus allocation is forecast to be £0.693m. The Government is consulting on reforms to "sharpen" the incentive intended by awarding New Homes Bonus to reflect the development of additional homes. It remains unclear exactly what such reforms will mean in practice, but the Government has stated that it is seeking to achieve savings of £800m to help address pressures in Adult Social Care services. As a result, future years' allocations remain subject to the outcomes of the consultation and will be confirmed during 2016/17.

#### 4.3.6 *Public Health Grant*

Public Health Grant allocations for 2016/17 and 2017/18 were announced on 11 February 2016, and equated to a cut of 10% over the two years (including the permanent impact of the in-year cuts announced by the Government in July 2015). At this stage, the 2017/18 figure remains indicative, but the announcement represents an improvement of £1m compared to the previous forecasts for the two-year period. It is still expected that the overall impact of grant reductions will be as forecast over the next four years. The rephrasing of the cuts by the Government reduces the immediate pressures faced by Public Health and gives scope to defer an element of the savings which the Cabinet has previously considered.

#### 4.3.7 Four-year Settlements

The Government has stated that it will offer local authorities four-year funding settlements (i.e. to 2019/20), although such settlements would remain subject to change for “unforeseen events”. Councils have until October 2016 to confirm whether they wish to accept this offer, although the Government has not yet explained the terms and arrangements which underpin the offer. An update will be brought to Members after these details are announced.

### 5. IMPACT ON 2016/17 FINANCIAL FORECASTS

5.1 The Final Settlement, although still hugely challenging for Knowsley, has improved the Council’s funding forecasts as summarised below.

#### 5.2 Core Funding

5.2.1 Most of the Council’s core funding is known as the “Settlement Funding Assessment”, which comprises Retained Business Rates, Top-Up Grant and Revenue Support Grant. The Settlement Funding Assessment for 2016/17 is analysed in the table below:-

Settlement Funding Assessment	2015/16 (Adjusted)	2016/17	Change	
	£m	£m	£m	%
Retained Business Rates	20.085	20.252	0.167	0.83
Top-Up Grant	36.539	36.844	0.305	0.83
Revenue Support Grant	51.139	41.043	(10.096)	-19.74
<b>TOTAL</b>	<b>107.763</b>	<b>98.139</b>	<b>(9.624)</b>	<b>-8.93</b>

5.2.2 A range of further funding allocations are provided by the Government. These include New Homes Bonus (£0.693m for 2016/17 - an increase of £0.099m since 2015/16) and the continuation of Section 31 Grant funding to offset the Government’s cap on Business Rates increases (£0.826m for 2016/17 - the same amount as allocated in 2015/16).

5.2.3 Overall, there has been a 9% reduction in total core funding as a result of the Final Settlement.

### 5.3 *Specific Grants*

At the time of writing this report, the announcements regarding the Government's allocations of Specific Grant for 2016/17 were still incomplete. For the purpose of the Council's financial forecasts, it is assumed that the unconfirmed grants will be cut in line with the Settlement Funding Assessment grant reduction (9%) noted in paragraph 5.2.3 above.

### 5.4 *Impact of the Final Settlement on Forecasts*

While still hugely challenging for the Council, the Settlement represents a significant improvement since the previous forecasts were reported to the Cabinet on 16 December 2015. At that stage, the expected cut in overall funding was around 11% (based on the level of cuts in previous years) and the total budget shortfall for 2016/17 was forecast at £19.9m. The Final Settlement reduces the forecast 2016/17 budget shortfall to £16m. The resulting four-year forecasts are shown in the table below:-

<b>Medium-Term Revenue Budget Forecast Shortfall</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>4-year Total £m</b>
Deficit	16.041	11.293	9.905	8.897	<b>46.136</b>

## **6. COUNCIL TAX PLANNING ASSUMPTIONS**

### 6.1 *Council Tax Planning Assumptions*

6.1.1 Based on the 2016/17 Council Tax Base approved at the full meeting of the Council on 27 January 2016, an additional £0.931m of Council Tax receipts would be generated in 2016/17 at current Council Tax levels. This increase reflects the success of the Council's positive approach to encouraging house building and the consequent generation of income to protect key services.

6.1.2 In addition, the Council can generate a further £0.416m of permanent resources for every 1% increase in Council Tax. After allowing for the resulting increase in Local Council Tax Support Scheme costs, the actual increase in available funding from a 1% increase in Council Tax is estimated at £0.280m per year.

6.1.3 To remain within the Government's referendum limits, and given the cessation of Council Tax Freeze Grant, the revised financial forecasts in this report now assume that Knowsley's Council Tax will be increased by 1.99% along with a further 2% increase for the Adult Social Care precept. The overall annual increase for Council Tax in 2016/17 is therefore assumed at 3.99% in the revised financial forecasts below.

## **7. REVISED MEDIUM-TERM FINANCIAL FORECASTS**

### *7.1 Underpinning Assumptions*

7.1.1 A wide range of estimates and assumptions are made in updating the forecasts, including the latest information on:-

- Pay inflation;
- Superannuation costs;
- Price and contract inflation;
- The impact of the Government's National Living Wage policy on contract costs;
- Treasury management interest rates and borrowing requirements;
- Levies; and,
- Potential financial pressures arising from:-
  - The increased costs of existing service levels;
  - The ability to manage legislative and demographic changes; and,
  - National and/or local policy changes.

7.1.2 Details of each of the estimates and assumptions are available from the Executive Director (Resources) on request.

### *7.2 Approved 2016/17 Savings*

7.2.1 At the full meeting of the Council on 5 March 2015, a range of savings were agreed as part of the 2015/16 Revenue Budget. These reduced the forecast budget gap in 2016/17 by £1.148m and are already reflected in the financial forecasts noted in paragraph 5.4 above.

7.2.2 On 16 December 2015, the Cabinet agreed a further range of measures which reduced the overall forecast shortfall for 2016/17 by a total of £9.164m. These were:-

- a) a target of £1.744m arising from positive forecasts of growth in retained Business Rates income;
- b) £1.985m of annual savings to be achieved through the implementation of a new Leisure Services model;



- c) the release of £2m of one-off resources in each of the three years starting from 2016/17 to help manage Government funding reductions over the medium-term;
- d) £1.157m of service savings, including savings arising from the investment programme approved by the Cabinet on 29 July 2015; and,
- e) £2.278m of Council-wide savings (including changes to employee terms and conditions, senior officer cost savings, service efficiencies, Liverpool City Region income, and treasury management savings).

7.2.3 In addition, a further £2.634m of savings was also considered by the Cabinet to address the Specific Grant reductions estimated at that time. After the Government's very late confirmation of the Public Health Grant allocation, it is now possible to defer the implementation of £1m of these savings into future years. Overall, there are sufficient savings to deal with the expected grant reductions in both 2016/17 and 2017/18. The Public Health savings are detailed in Appendix A and it is proposed that the phasing of these savings over the next two years should be determined by the Director of Public Health in consultation with the Public Health and Wellbeing Cabinet Member.

### 7.3 *Outcomes of Consultation on Savings*

7.3.1 On 16 December 2015, the Cabinet also approved a range of further service savings measures in order to address the remaining forecast deficit. A number of these were approved by the Cabinet on an "in principle" basis, as they were subject to the outcomes of a subsequent consultation and feedback process. This process took place between 16 December 2015 and 13 January 2016 and details of the individual consultation responses are available upon request from the Executive Director (Resources).

7.3.2 In view of the outcomes of that process, and given some limited financial flexibility afforded to the Council by the improved Funding Settlement and the ability to adopt an additional Adult Social Care Council Tax precept, it is now proposed that some changes should be made to the service savings approved by the Cabinet on 16 December 2015. The consultation responses are discussed below:-

- a) Following consultation and further consideration of the impact on the affected individuals, it is proposed that a saving of £0.017m to be made from the cessation of an alarm monitoring response service at Priory Court should be withdrawn;

- b) A number of consultation responses were received regarding savings in relation to Sheltered Housing and the impact which they would have on very vulnerable residents. In view of this, it is proposed that the following savings totalling £0.389m should be withdrawn:-
  - i) Removal of payments for warden services (£0.275m); and,
  - ii) Removal of funding for monitoring of community alarms (£0.114m);
- c) Consideration has been given to feedback on the proposal to remove a Council post providing energy adaptation support, as this function helps local residents to undertake energy improvements in their homes. Consultation feedback highlighted the fact that take-up by vulnerable customers is higher where a local authority has a dedicated resource to liaise between energy providers and local customers. The proposed deletion of this post would remove that dedicated resource in Knowsley's case. In the past, having the function in place has meant that take-up in areas of Knowsley has been much higher than the national average. The loss of the post could reduce the take-up rates and therefore the drawdown of private sector funding, and the impact on small businesses in the Borough would mean that both the direct and indirect benefits would be dramatically reduced. Although this is a discretionary function, it is proposed that the saving of £0.033m should be withdrawn; and,
- d) Concerns were also raised regarding the possible impact of ceasing the Public Health contribution to the Council's Crime and Disorder Team, particularly in terms of a potential consequent reduction in domestic violence support. Following receipt of the Community Safety Funding settlement from the Merseyside Police and Crime Commissioner, the Crime and Disorder Team's budgets for 2016/17 have been reviewed, and the proposed reduced contribution from Public Health funding can be managed without any impact on domestic violence support. It is therefore considered that this saving (£0.035m) should still be approved.

7.3.3 Agreement to the changes proposed above would reduce the savings approved by the Cabinet on 16 December 2015 by £0.439m in total. Subject to the Cabinet's consideration, these changes are reflected in the revised financial forecasts below.

7.4 Subject to the Cabinet's consideration of the changes proposed in paragraph 7.3.2 above, the revised financial forecasts now reflect the total approved savings as summarised below:-

	<b>Savings in 2016/17 £m</b>	<b>Additional Savings in 2017/18 £m</b>	<b>Total Permanent Savings £m</b>
Approved in 2015/16 Budget (see paragraph 7.2.1)	1.072	0.076	1.148
Savings approved during 2015/16 (see paragraph 7.2.2)	8.859	0.305	9.164
Specific Grant savings – indicative phasing (see paragraph 7.2.3)	1.588	1.046	2.634
Service Savings considered on 16 December 2015 (see section 7.3)	4.002	4.095	8.097
<b>TOTAL</b>	<b>15.520</b>	<b>5.522</b>	<b>21.043</b>

7.5 The Cabinet has previously recognised that achieving such a substantial range of savings at the same time as seeking to improve the quality of the associated services is a significant challenge. While it is intended that all of the savings will be fully achieved, the implementation timescales (particularly for Social Care services) require some of the savings to be released over a two-year period. On 29 July 2015, the Cabinet agreed to set aside funding to allow this phasing to be managed. It had previously been envisaged that significant one-off resources would need to be used in 2016/17 to fund this delayed implementation, but, based on the range of measures set out above, only £0.085m of these resources will be required as a one-off contribution in 2016/17. This approach also ensures that any potential compulsory redundancies can be deferred until 2017/18. The proposed phasing of the savings is shown at Appendix A to the report.

#### 7.6 *Revised Financial Forecasts*

7.6.1 The revised forecasts below reflect the latest funding and expenditure estimates, and the proposed phasing of the approved savings:-

<b>Medium-Term Revenue Budget Forecast</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>4-year Total £m</b>
Deficit	Balanced	6.306	9.321	10.302	<b>25.929</b>

7.6.2 Having addressed the initial forecast of the 2016/17 shortfall through the decisions taken on 16 December 2015, the improved financial forecasts set out in this report allow almost half of the approved service and specific grant related savings to be phased for implementation in 2017/18.

7.6.3 These revised forecasts provide the context for the Council's final 2016/17 budget considerations. While the funding forecasts are relatively certain, they do remain subject to any changes in the Government's commitment to its "four year offer". There also remain significant unknown variables which could affect the expenditure estimates and updates will be reported to Members as and when further information becomes available. The main areas of risk are summarised in section 12 of this report.

## **8. COUNCIL PROVISIONS, RESERVES AND BALANCES**

### **8.1 *Provisions***

The Council maintains appropriate provisions for known liabilities in line with recommended accounting practice.

### **8.2 *Earmarked Reserves***

The Council maintains earmarked reserves for specific future policy developments and projects, and reviews these on a regular basis to identify resources which may be redirected to other Council priorities. A detailed review of the ongoing monitoring and challenge of the Council's reserves was reported to the Cabinet on 29 July 2015. The Executive Director (Resources) will continue to monitor reserves in the coming months, and a further update will be reported to the Cabinet as part of the final outturn position for 2015/16.

### **8.3 *Unearmarked Reserves ("General Balances")***

8.3.1 General Balances are kept to provide a financial safety net in the event of unforeseen costs or emergencies. The Council's policy in setting its level of General Balances is based on best practice guidance issued by the Chartered Institute of Public Finance and Accountancy and takes account of the strategic, operational and financial risks facing the Authority.

8.3.2 As reported to the Cabinet on 17 June 2015, £0.286m of General Balances were used to fund the final deficit at outturn against the Council's 2014/15 budget. Following that reduction, General Balances stood at £4.984m, which represented 3.3% of the approved 2015/16 Net Revenue Budget and was considered to be a suitable level by the Executive Director (Resources). This was the first use of General Balances since 2002/03 and reflected the increasing pressure on budgets due to Government funding cuts. The Council can now only afford very minor contingency budgets within the annual budget and any uncontained deficits therefore result in a call on the Council's Balances.

8.3.3 Given the increased financial risks due to reduced levels of contingency budgets and increased levels of savings which have to be implemented, the Executive Director (Resources) considers that any 2016/17 budget proposals put forward for consideration by the Council should maintain General Balances at this level.

#### 8.4 *Use of Reserves in the Council's Medium-Term Financial Strategy*

Reserves and balances are one-off in nature and are not a sustainable solution to the permanent budget shortfalls facing the Council. As agreed by the Cabinet on 16 December 2015, the revised financial forecasts reflect the use of £2m of reserves in each of the next three years to help manage funding reductions over the medium-term. In addition, the forecasts already assume the use of £2.300m of reserves previously approved to allow savings to be phased over the two-year period.

### **9. MEDIUM-TERM FINANCIAL STRATEGY: 2017/18 AND FUTURE YEARS**

9.1 The Council's financial strategy will continue to focus on the following core features:-

- a) Reductions in costs – ideally by reducing the need for and dependency on Council services. The scale of the cuts required will continue to require significant reductions in service provision and the Council must accept that some services will not be sustainable in their current form and may have to cease, and that some current priority areas will not be affordable in future years;
- b) Generation of income on a local basis - particularly through increased Business Rates and Council Tax flowing from the Council's policy of encouraging and enabling increased numbers of businesses and houses in the Borough. Additional funding through fees and charges, partner organisation contributions, and external funding must also be maximised; and,
- c) Continued challenge of the inequality of the Government's approach to funding local government - a return to a needs-based funding allocation would give Knowsley a larger proportion of the available Government funding given the Borough's relatively higher costs of demand-led services.

9.2 In order to determine how these elements should be achieved, the Council must determine what services it is legally bound to provide, and what standards of performance it wants to provide across all service areas.

### 9.3 *Performance-Based Financial Strategy*

9.3.1 From 2017/18 onwards, the Council will be adopting a performance-based approach to its Financial Strategy. The core principles of this approach will be that the Authority's budgets should be allocated to deliver the most sustainable impact on the Council's priorities and to ensure that statutory and regulatory requirements are met most efficiently and effectively.

9.3.2 To enable this, the approach to budget setting and service planning will be integrated further, with budget allocations more directly linked to agreed performance levels, expected levels of efficiency, and the adoption of key policy principles including prevention, behaviour change and social value. Resources will be invested in services and interventions to enable the delivery of agreed priorities and reallocated away from services where reduced performance is acceptable or transformation opportunities enable performance to be sustained with fewer resources. This will also generate future potential savings options.

### 9.4 *2017/18 Budget Setting*

9.4.1 The Council must start to plan now for setting its 2017/18 budget. The Authority's 2016/17 Budget Strategy focussed mainly on savings and efficiencies in the way in which Adult and Children's Social Care is provided. These were complemented by contributions from other service areas, a range of Council-wide savings, and the phased release of Council reserves.

9.4.2 For future years, savings will be identified through an integrated approach to budget setting and service planning and this will be applied to all service areas from 2017/18 onwards. The budget and service planning process during 2016 will produce three-year plans and savings options to 2019/20 for consideration by Members in October 2016.

### 9.5 *Capital Strategy*

The Council's Medium-Term Financial Strategy underpins how the Authority manages its revenue expenditure and income. The Council also has a Capital Strategy which sets out its approach to capital investment by providing a framework for the allocation and management of capital resources within the Council. Further explanation of the Capital Strategy is provided at Appendix B to this report.

## **10. 2016/17 ANNUAL PAY POLICY**

10.1 The Localism Act 2011 set out requirements for local authorities to determine and publish an Annual Pay Policy Statement, which must be approved by a full meeting of the Council prior to each financial year. In accordance with the legislation, the Annual Pay Policy Statement sets out the Council's pay structure, senior officer remuneration and policies in relation to:-

- Chief officer remuneration;
- Remuneration of the Council's lowest paid employees; and,
- The relationship between chief officer remuneration and that of other employees.

10.2 Previous Pay Policy Statements have set out the Council's approach to reviewing the Council's senior officer structure and pay for both non-management and management employees. The completion of the pay review for non-management employees is dependent upon the completion of all appeals, and should be achieved by the end of March 2016, at which point the final cost of the review will be known. The senior officer pay review is expected to be complete by April 2016. Both pay reviews are aimed at ensuring that the Council operates an equal pay compliant pay structure.

10.3 The proposed Annual Pay Policy Statement for 2016/17 is attached at Appendix C to this report for the Cabinet's consideration. The legal provisions do not apply to school teaching staff and therefore they are not included in the scope of the Statement.

### *10.4 Living Wage*

10.4.1 In keeping with the Council's commitment to tackle low pay, the decision was taken in 2015 to apply the Living Wage to relevant employees.

10.4.2 The Government's "National Living Wage" (which once enacted will also be the statutory National Minimum Wage) is to be increased to £7.20 per hour with effect from 1 April 2016. The Government has also committed to increasing the National Living Wage to £9 per hour over the next four years.

10.4.3 Following the Living Wage Foundation's announcement in November 2015 of an increase in the Living Wage rate to £8.25 per hour, it is recommended that this increase should be applied in Knowsley with effect from 1 April 2016. The implementation of the latest Living Wage increase would be managed alongside the 2016/17 local government pay award which is currently pending agreement. The estimated costs of both of these pay increases are reflected in the medium-term financial forecasts in this report.

10.4.4 A further increase in the Living Wage would reaffirm Members' commitment to tackle low pay. Any decision to apply future increases in the Living Wage would need to be based on affordability and the likely impact on the Council's pay structure.

#### 10.5 *Senior Officer Pay*

10.5.1 Senior officer posts are currently defined in the Council's proposed Pay Policy as including the Council's Head of Paid Service, Executive Directors (including the Assistant Chief Executive) and Assistant Executive Directors. These categories include all of the Council's statutory chief officers in accordance with the Local Government and Housing Act 1989 and the Localism Act 2011.

10.5.2 It is clearly important that the management of Council services continues to be as efficient and effective as possible. As the shape and size of Council services changes, so too should the Council's senior officer structure.

10.5.3 For this approach, it is more appropriate to define "senior officers" as being all officers on grades of PMG1 (or equivalent) and above. On this basis, it is estimated that the total senior officer pay budget in 2015/16 represent 3% of the Council's total gross expenditure budgets. Given the fact that senior officer levels have already been reduced far more extensively than the remaining officer structure since 2010, it is proposed that this proportion should now be "pegged" at this level and that the Pay Policy should require senior officer costs to remain in this proportion to future years' budgets.

10.5.4 The Council-wide savings noted in paragraph 7.2.1 of this report include savings to be achieved in 2016/17 in order to achieve this commitment.



## **11. RESOURCE IMPLICATIONS**

### **11.1 Financial**

This report sets out the context within which the Council must make its financial decisions in 2016/17 and over the medium-term. The 2016/17 Revenue Budget report elsewhere on this agenda sets out further information for the Cabinet to consider in determining its final proposals for the Council's 2016/17 revenue budget.

### **11.2 Human Resources**

A number of the savings items included in this report will result in job losses. In total, it is expected that 81 posts will be lost as a result of implementation of all of the savings set out in this report. While the Council continues to aim to deal with as many job losses as possible through natural wastage, there are a potential 24 posts which are expected at this stage to result in compulsory redundancies. The proposed phasing of the implementation of these savings would ensure that any compulsory redundancies associated with these proposals were deferred until 2017/18. This approach would allow the Council a further opportunity to review implementation plans over the coming months and to explore all possible options to achieve post reductions through voluntary means. This approach has been welcomed by the local trade unions.

### **11.3 Information Technology**

This report has no direct impact on information technology, but does provide the context for future decisions which could have such an impact.

### **11.4 Physical Assets**

This report has no direct impact on the Council's physical assets but does provide the context for future decisions which could have such an impact.

## 12. PERFORMANCE AND RISKS

12.1 There will always be a risk that financial estimates are subject to change in the assumptions on which they are based. The risk assessment below summarises the potential risks to the underlying assumptions:-

<b>Risk</b>	<b>Basis</b>	<b>Likelihood</b>	<b>Potential Impact</b>
Government Grant Funding	Regardless of the existence of any multi-year settlement, future funding may be reduced further than the forecast amounts.	Low	High
Pay Awards	There could be an increase above the amount included in the financial model.	Medium	Medium
Business Rates Growth	Business Rates yield may not achieve the assumed increase.	Low	High
Variation in 2017/18 Council Tax Base	Council Tax yield may not achieve the assumed increase.	Low	Medium
Failure to achieve approved savings	There may be a shortfall in the assumed financial impact of savings to be achieved in the next two years.	Medium	Medium

12.2 It is imperative that robust monitoring of progress against the implementation of each Service's efficiency and savings measures takes place, and that plans and timescales for implementation are set out in advance.

12.3 There is also a risk that unbudgeted pressures will add to the Council's financial shortfall in future years if they cannot be managed effectively. It is essential that budget monitoring is effective and timely, and is properly focussed on high risk areas. The Council's ability to deal with emerging financial pressures will diminish as budgets are reduced and as one-off resources are used.

## 13. EQUALITY AND ENVIRONMENTAL ASSESSMENT

### 13.1 Equality and Diversity

This report has no direct impact on any particular population group, but does provide the context for future decisions which could impact on performance and the delivery of services to the public.

## **13.2 Environmental Policy**

This report has no direct environmental policy impact, but does provide the context for future decisions which could have such an impact.

## **14. COMMUNICATION ISSUES**

14.1 A co-ordinated and phased communications programme is in place as part of the Annual Budget Strategy to make sure that Members, service users, employees, local trade unions, partner organisations and residents are all informed and consulted as appropriate.

14.2 The Annual Budget Strategy approach has provided a range of detailed information to Members to ensure that fully informed decisions can be taken.

## **15. CONCLUSIONS**

15.1 The Government's approach to the allocation of funding - and funding reductions - has been altered to take a more appropriate account of the amount of funding which can be raised locally. This is a significant change which at last reflects some of the matters on which the Council has been lobbying in recent years. While the changes address much of the unfairness which has been built into the system since 2010, the cuts to the local government funding are still significant, and Knowsley has suffered disproportionately high cuts for the last five years which have not been reversed through the recent shift in Government policy.

15.2 The Council's 2016/17 budget setting decisions should be based upon the information set out in this report in order to ensure that a balanced budget can be set on a realistic and sustainable basis.

15.3 The report sets out an outline for a performance-based financial strategy to enable work on future year budget setting to be commenced as soon as possible.

15.4 The proposed Pay Policy demonstrates the Council's commitment to applying a meaningful Living Wage for its employees and to ensuring appropriate pay levels for its senior officers.

JAMES DUNCAN  
Executive Director (Resources)

Contact Officer:- Dan Barlow (0151)-443 3622

Appendices:-

Appendix A (i) 2016/17 Service Savings  
(ii) 2016/17 Specific Grant Related Savings  
Appendix B Capital Strategy 2016/17  
Appendix C Pay Policy Statement – March 2016

Background Papers:-

None

**APPENDIX A (i)**

**2016/17 SERVICE SAVINGS**

<b>Service Area</b>	<b>Summary of Actions to Achieve Savings</b>	<b>Savings in 2016/17 (£m)</b>	<b>Additional Savings in 2017/18 (£m)</b>	<b>Total Permanent Saving (£m)</b>	<b>Total Job Losses – all 2017/18 (fte)</b>
<b>Adult Social Care</b>	Cease payments to North West Training & Development	0.001	0.000	0.001	0.0
	Change the setting for 6 Service Users with a learning disability.	0.119	0.091	0.210	0.0
	Extra Care Scheme at The Watchworks in Prescot.	0.029	0.057	0.086	0.0
	Healthwatch - 5% contract saving	0.000	0.009	0.009	0.0
	Healthwatch, Older People Involvement and Knowsley Older People's Voice Support - 5% contract saving	0.002	0.000	0.002	0.0
	Independent Mental Health Advocate Service (St Helens Accommodation Project) - 5% contract saving.	0.004	0.000	0.004	0.0
	Intensive Rehabilitation - reduce contract costs (St Bartholomew's Court)	0.000	0.030	0.030	0.0
	Knowsley Carers Centre Support Service - 5% contract saving	0.007	0.000	0.007	0.0
	Negotiate a 10% reduction in the contract with Alt Bank House which provides a service to single homeless people.	0.027	0.024	0.051	0.0
	Negotiate a 5% reduction in the contracts with Knowsley Youth Mutual who provide support to Young Carers; Alzheimer's Society Information, advice and peer support; Knowsley Carers Service; Nugent Care who provide community capacity support.	0.007	0.000	0.007	0.0
	Nursing Care - other alternatives are considered ahead of nursing care.	0.034	0.063	0.097	0.0
	Occupational Therapy services - negotiate new agreement with 5BP	0.050	0.000	0.050	0.0
	Optimise the use of complex assistive technology (telecare)	0.000	0.060	0.060	0.0
	Redesign Older People's Day Care provision	0.000	0.050	0.050	2.0
	Reduce support from Imagine Independence which provides visiting service to people who have an episode of mental health.	0.014	0.014	0.028	0.0
	Reduction in both the number of Service Users in receipt of a Direct Payment managed account and the cost of a managed account.	0.021	0.064	0.085	0.0
	Remove the existing £200 per week cap on service user's contributions to community based care	0.012	0.000	0.012	0.0
Restructure of Adult Provider Services	0.000	0.056	0.056	2.0	

Service Area	Summary of Actions to Achieve Savings	Savings in 2016/17 (£m)	Additional Savings in 2017/18 (£m)	Total Permanent Saving (£m)	Total Job Losses – all 2017/18 (fte)
<b>Adult Social Care (contd)</b>	Review Care Packages - Learning Disability Home Care	0.023	0.011	0.034	0.0
	Review of 1700 low cost care packages	0.148	0.249	0.397	0.0
	Stop providing Weekend dementia clubs.	0.040	0.000	0.040	0.0
	Transfer existing Out of Borough Adult Day Care Service Users to placements within Knowsley.	0.035	0.036	0.071	0.0
	Transfer responsibility for therapeutic counselling and bereavement service to adults over 16 to Health partners.	0.023	0.000	0.023	0.0
	Co-locate Halewood Day Care centre from New Hutte into Halewood Leisure Centre	0.000	0.020	0.020	0.0
	Recovering the cost of providing Medication Prompts to Service Users as this is now a Health responsibility as per the Care Act 2014.	0.100	0.000	0.100	0.0
	Furnished Tenancies - Update existing charging policy to reflect full cost recovery	0.005	0.000	0.005	0.0
	Review and reduce Supported Accommodation rates paid to Providers	0.231	0.000	0.231	0.0
	No longer provide maintenance for stair lifts	0.000	0.085	0.085	0.0
	Negotiate a 20% reduction in the Making Space Accommodation contract which provides support services to people with mental health issues.	0.000	0.061	0.061	0.0
	Transfer responsibility for support to Black and Minority Ethnic patients currently provided by St Helens Accommodation Project to Health partners	0.017	0.000	0.017	0.0
	Review Care Packages for Supported Accommodation	0.296	0.296	0.592	0.0
	Learning Disabilities - Review care packages in Supported Accommodation	0.115	0.038	0.153	0.0
	Ensure asset based approach is used in the initial assessment stage of a referral.	0.013	0.000	0.013	0.0
	Increase the effectiveness of reablement which will improve outcomes for Service Users and result in a reduced level of support following reablement	0.261	0.508	0.769	0.0
	Ensure the assessment and review process is as lean and efficient as possible	0.000	0.552	0.552	12.0

Service Area	Summary of Actions to Achieve Savings	Savings in 2016/17	Additional Savings in 2017/18	Total Permanent Saving (£m)	Total Job Losses – all 2017/18 (fte)
<b>Adult Social Care (contd)</b>	Ensure Reablement delivery is more targeted to maximise the benefits and that the process is as efficient as possible.	0.000	0.397	0.397	25.0
	Contact to assessment - Review of skill mix within Contact Centre to improve efficiency in the screening process	0.035	0.035	0.070	0.0
<b>Adult Social Care Total</b>		<b>1.669</b>	<b>2.806</b>	<b>4.475</b>	<b>41.0</b>
<b>Building Control</b>	Increased Income from Partnership work and increased marketing	0.010	0.000	0.010	0.0
<b>Building Control Total</b>		<b>0.010</b>	<b>0.000</b>	<b>0.010</b>	<b>0.0</b>
<b>Children's Services</b>	A full review of the Children with Disability and Respite service to remove duplication and inefficiencies	0.050	0.050	0.100	1.0
	Direct Payments - review all packages.	0.076	0.049	0.125	0.0
	Family Centre review - Closure and restructure of the family centres.	0.080	0.050	0.130	2.0
	Implement innovative practice to reduce demand for social work.	0.100	0.000	0.100	0.0
	Improvements in the Adoption service and the development of a shared service across the city region	0.100	0.000	0.100	2.0
	Increase capacity for residential provision within the Borough and undertake a price negotiation exercise on Out of Borough Placements.	0.100	0.000	0.100	0.0
	Management Restructure	0.000	0.160	0.160	2.0
	Restructure across Early Help and Social Care	0.000	0.390	0.390	0.0
	Sufficiency (Fostering) - diversion of Independent Foster Agency use into in-house fostering	0.700	0.400	1.100	0.0
	Use of Payment by Results funding to manage demand for Early Help	0.085	0.000	0.085	0.0
	Sufficiency (Residential) - Review of resourcing and rotas within residential units to reduce costs where possible	0.020	0.000	0.020	0.0
<b>Children's Services Total</b>		<b>1.311</b>	<b>1.099</b>	<b>2.410</b>	<b>7.0</b>
<b>Economic Development</b>	Combined Authority Bid for European Structural and Investment Fund (ESIF).	0.930	0.000	0.930	0.0
<b>Economic Development Total</b>		<b>0.930</b>	<b>0.000</b>	<b>0.930</b>	<b>0.0</b>

Service Area	Summary of Actions to Achieve Savings	Savings in 2016/17	Additional Savings in 2017/18	Total Permanent Saving (£m)	Total Job Losses – all 2017/18 (fte)
<b>Housing Strategy</b>	Release of Empty Homes budget allocation. £0.300m Council investment approved as part of 15/16 budget allocation will be utilised to fund discretionary Empty Homes intervention.	0.037	0.000	0.037	1.0
<b>Housing Strategy Total</b>		<b>0.037</b>	<b>0.000</b>	<b>0.037</b>	<b>1.0</b>
<b>Insurance</b>	Reduce contracted hours (by 2 days) of Insurance Administrator post.	0.010	0.000	0.010	0.4
<b>Insurance Total</b>		<b>0.010</b>	<b>0.000</b>	<b>0.010</b>	<b>0.4</b>
<b>Payments</b>	Reduction in management capacity for the Payments Team	0.010	0.000	0.010	0.5
<b>Payments Total</b>		<b>0.010</b>	<b>0.000</b>	<b>0.010</b>	<b>0.5</b>
<b>Revenues</b>	Proactive inspection of Business Premises and Domestic Properties to minimise Business Rates avoidance, maximise identification of Rateable Values and identify incorrect exemptions/discounts/empty properties	0.000	0.118	0.118	0.0
	Proactive reviews of Council Tax Reduction Scheme cases	0.000	0.072	0.072	0.0
<b>Revenues Total</b>		<b>0.000</b>	<b>0.190</b>	<b>0.190</b>	<b>0.0</b>
<b>Parish and Town Councils</b>	Review of Council Tax Reduction Scheme offset grant for Parish and Town Councils	0.025	0.000	0.025	0.0
<b>Parish and Town Councils Total</b>		<b>0.025</b>	<b>0.000</b>	<b>0.025</b>	<b>0.0</b>
<b>GRAND TOTAL</b>		<b>4.002</b>	<b>4.095</b>	<b>8.097</b>	<b>49.9</b>



**APPENDIX A (ii)**

**2016/17 SPECIFIC GRANT RELATED SAVINGS**

Service Area	Summary of Actions to Achieve Savings	Total Permanent Savings (2016/17 to 2017/18) (£m)	Total Job Losses – all 2017/18 (fte)
<b>Public Health</b>	Cancel contract for pharmacy based Identification and Brief Advice service re alcohol	0.040	0.0
	Reduce campaigns budget to £0.080m	0.020	0.0
	Cease contribution to shared cancer screening coordinator post.	0.030	0.0
	Reduce skin cancer campaign funding.		
	Cancel contribution to Lyndale Cancer Support		
	Ceasing support for Clinical Commissioning Group / General Practitioner communities of practice	0.019	0.0
	Cancel contribution to the Council's crime and disorder team	0.035	0.0
	Cease commissioning joint mental health / substance misuse service for young people	0.022	0.0
	Re-commission the falls service with reduced funding.	0.030	0.0
	Reduce the grant allocation for 0-5 year olds which is in excess of the contract value.	0.611	0.0
Scale back and re-focus the integrated wellness service. Renegotiate the contract for 2016/17 and re-commission the service for 2017/18.	0.200	0.0	
Re-commission obesity service with £0.100m less funding.	0.100	0.0	
Switching distribution of toothpaste from postal to giving out at various settings where under 5s are in attendance.	0.080	0.0	
Ongoing impact of reductions in expenditure made to achieve in-year savings during 2015/16.	0.220	0.0	
Reduce public health team through early retirement / voluntary severance.	0.161	4.0	
Terminate contract for healthy schools at end of school year	0.164	0.0	
Closing community small grants programme	0.050	0.0	
Delete vacant post within adults substance misuse team	0.044	1.0	

Service Area	Summary of Actions to Achieve Savings	Total Permanent Savings (2016/17 to 2017/18 (£m))	Total Job Losses – all 2017/18 (fte)
<b>Public Health (contd)</b>	Reduce provision of resource packs and teacher training related to preventing teenage pregnancy	0.013	0.0
	Cancel budget for implementation of tobacco control strategy	0.050	0.0
	Reduce budget available for grant scheme	0.020	0.0
	Reduce additional funding over and above core service for Breastfeeding	0.075	0.0
	Withdraw from sub-regional commissioned programmes	0.036	0.0
	Redesign service at Children's Centres to generate efficiency savings	0.300	0.0
	Re-contract for Genito Urinary Medicine (GUM) services - moving to an individual activity based contract with the Provider	0.015	0.0
	Reduce funding for young people's health as part of re-negotiation of council's broader contract with Knowsley Youth Mutual	0.030	0.0
	Public Health efficiencies - reduce support for Child Death Overview Panel.	0.021	0.0
	Ceasing additional activity in the Rangers service	0.049	0.0
	Cease sponsorship for awards	0.002	0.0
	Reduced mental wellbeing provision - cancel contract with Land Life	0.042	0.0
	<b>Public Health Total</b>		<b>2.479</b>
<b>Benefits (specific grant funded)</b>	Increased recovery of Housing Benefit overpayments	0.073	0.0
	Reduced capacity for welfare benefit home visits	0.045	1.4
<b>Benefits Total</b>		<b>0.118</b>	<b>1.4</b>
<b>Financial Inclusion (specific grant funded)</b>	Reduce Commissioning budget for Advice Services	0.037	0.0
<b>Financial Inclusion Total</b>		<b>0.037</b>	<b>0.0</b>
<b>GRAND TOTAL</b>		<b>2.634</b>	<b>6.4</b>

**CAPITAL STRATEGY 2016/17**

**1. INTRODUCTION**

- 1.1 Effective capital investment is essential to the delivery of the Council's priorities and capital assets are a key resource contributing to the prosperity and well-being of the Borough. For over 10 years, the Council has operated a rolling Medium-Term Financial Plan, supported by a Capital Strategy. This integrated planning strategy incorporates the use of capital and revenue resources, and has allowed Knowsley to redistribute and recycle funds to ensure that service priorities are met. Wherever possible, the Council also operates on "invest to save" principles, which allows capital investment to be directed towards modernisation and efficiency projects, thereby improving the Council's capacity to manage future spending.
- 1.2 The Capital Strategy sets out the approach to capital investment by providing a framework for the allocation and management of capital resources within the Council. This ensures that the effectiveness of capital resources is maximised by allocating funding to those programmes and schemes that will contribute most to the achievement of the Council's Corporate Plan. The key drivers of the Capital Strategy are set out in Section 2 below.
- 1.3 As well as being an integral part of the planning process aimed to deliver high quality services and value for money, the Capital Strategy is also intrinsically linked with the Property and Asset Management Plans, and is designed to support the priorities emerging from this wider view of facilities and assets across the Borough.
- 1.4 The main challenges in managing capital investment are to maximise value for money from limited capital resources, while meeting the priorities of the Council's and its partner agencies.
- 1.5 As part of the Authority's Budget Strategy, the Council continues to challenge the way services are delivered, and how those services can be made more accessible. In addition, the further development of an approach to sharing facilities will be pursued with a view to achieving more efficient service delivery. It is anticipated that revenue savings may be accrued through use of fewer sites and that surplus assets could be released to provide capital resources for future investment.

## **2. KEY DRIVERS OF THE CAPITAL STRATEGY**

2.1 The Capital Strategy is designed to:-

- Provide a process for evaluating and prioritising capital investment on the basis of its contribution towards the achievement of the council's key priorities;
- Maximise the resources available for capital investment;
- Facilitate collaborative and cross-cutting working;
- Establish a clear framework for managing and monitoring the Capital Programme; and,
- Optimise the existing asset base.

## **2.2 Evaluation Process**

2.2.1 In order to establish a set of parameters for evaluating a capital scheme for funding approval, it is necessary to set out the key principles for capital investment:-

- Capital investment should be consistent with the Council's vision of Knowsley being "the Borough of Choice";
- All capital investment should support the key outcomes of the Council and, where appropriate, be inter-linked with the Council's Property Plan;
- Capital investment should preserve, maintain or create an asset which is fundamental to the Knowsley Council and its partner agencies' outcome delivery; and,
- All capital investment plans should be affordable and demonstrate value for money.

## **2.2.2 Capital Investment Outline**

- (i) It is important that capital investment is based on a robust evaluation process which ensures that investment is directed to schemes, projects and programmes, which contribute to the Council's and/or its partner agencies' priorities, provide value for money, and are subject to a rigorous risk assessment. To achieve this, all capital schemes are subject to evaluation using the **Capital Investment Outline**. This document is used to capture the information required to assess a capital investment proposal against the required criteria and is approved by either an Executive Director in consultation with an Executive Member or the Cabinet (depending on the value of the scheme). The full completion of this document for proposed schemes is mandatory, as it allows for the evaluation of the scheme in line with corporate aims and objectives and Council priorities.
- (ii) A copy of the Capital Investment Outline can be obtained from the Executive Director (Resources). A table is presented at Annex A to this Strategy which provides guidance for the completion of each section within the document. Should service managers have any queries or need support with the process or reporting requirements, officers in Financial Management Services will be able to assist.

## **2.2.3 Post-Evaluation Process**

A detailed evaluation should be undertaken of all major capital schemes completed during each financial year in order to assess the impact of capital investment. This evaluation should consider lessons learned, whether the capital scheme met its objectives, and whether value for money was achieved.

## **2.3 Knowsley Partnership Priorities**

- 2.3.1 The Corporate Plan provides a vision for residents, businesses and agencies working in Knowsley. The Plan is about agreeing common issues and priorities for Knowsley and identifying where a difference can be made to people's lives by working differently and together. The Plan identifies the priorities for action and where resources and effort should be targeted to bring about the vision of "Knowsley - the Borough of Choice".
- 2.3.2 This Corporate Plan provides the strategic framework for Knowsley Council to deliver real improvements on the ground for local people and in local neighbourhoods. The Council aims to optimise resources and achievement of these objectives by seeking out and allocating capital funding in accordance its priorities. In order to be considered for funding, individual projects must demonstrate contribution to the objectives of the Corporate Plan.

## **2.4 Maximising Resources for Capital Investment**

2.4.1 The Council's Capital Programme is resourced from a number of different sources. These include resources from central Government and external funding providers, and those resources generated locally. As current capital resources are limited, a greater emphasis will need to be placed on proactively seeking additional funding and working in partnership to lever in additional resources in order to fully support the Council's and the Knowsley Partnership's priorities. The main current sources of capital funding are outlined below.

### **2.4.2 Government Grants**

The Government gives capital support in the form of grants. These tend to be for specific purposes and therefore are used to support spending programmes for which they are approved. These are the Council's preferred form of Government support for capital and should be sought where possible.

### **2.4.3 Prudential Borrowing**

In the absence of specific external funding, prudential borrowing provides a potential source of finance for capital projects. The Council will positively investigate opportunities provided by the freedom to procure capital investment financed by prudential borrowing where plans are sustainable, prudent and affordable. This will be particularly the case where funding is scarce. Any prudential borrowing will be in line with the requirements of the Council's Treasury Management Strategy.

Previously, the Council has had a policy of using prudential borrowing only for capital schemes classed as "invest to save", whereby the investment not only generate savings to pay for itself over time, but will also generate future resources to be reinvested in priority services. This policy has since been widened so that any schemes are considered which meet the requirement of affordability and have an identified revenue stream to repay the borrowing costs over the life of the asset. A full appraisal will take place to ensure that sufficient revenue exists to repay the cost of borrowing.

As part of the future Capital Strategy, the Council will wherever possible consider the use of prudential borrowing to finance longer life assets which will minimise the charge to revenue in respect of Minimum Revenue Provision. If this approach is approved, then other sources of funding, such as use of capital receipts may be considered.

#### 2.4.4 Capital Receipts

Capital receipts arise from the disposal of a Council owned asset, e.g. land or buildings. The re-investment of capital receipts is not restricted, other than in the case of receipts from the sale of school playing fields. The main challenges for Knowsley in relation to capital receipts are first the availability of assets for disposal and then optimising the sales values achieved. Capital receipts should be viewed as a last resort for funding given the low levels of resource available and should only be used where opportunities for external support do not exist. Consideration should be given to using such funds with a short-term pay-back period.

The Council assumes that all receipts are a corporate resource (other than those mentioned above in relation to school playing fields) and will be allocated to areas of need and priority in accordance with this Strategy. Wherever possible, the Council will also consider using capital receipts to finance short-term assets, leaving borrowing to finance the longer term assets. This will therefore assist in matching loan duration with estimated asset life.

As part of the Final Local Government Finance Settlement for 2016/17, it was announced that local authorities would be able to use capital receipts to fund projects designed to generate ongoing revenue savings or to transform service delivery to reduce cost or improve quality. As the Council currently has limited available capital receipts, it is not intended to utilise this flexibility during 2016/17. The level of available receipts will be kept under review for possible such use in future years.

#### 2.4.5 Other Grants and Contributions

This category of funding includes sources such as Lottery, European and partner or developer contributions. The Council actively seeks external funding in these forms and has a good track record in attracting such funding.

#### 2.4.6 Revenue Contributions

This source of funding comes from within Council revenue budgets. Given the increasing pressure on the Council's revenue budget, this option will continue to be limited.

## **2.5 Working in Partnership and Cross-cutting Service Delivery**

2.5.1 As part of the Devolution agenda, Knowsley recognises the need to work in a more joined-up manner with its Liverpool City Region partners - for example, working with the City Region's Combined Authority to develop the local transport infrastructure. The Council works alongside a number of external bodies in order to secure capital funding to further its objectives. The Council also sees itself as a catalyst for change, using its own resources to encourage other funders to contribute to the public facilities that meet the needs of its residents.

2.5.2 The Council places emphasis on the need to take a more cross-cutting approach towards thematic issues, which focus on breaking down any existing barriers between service providers. The Council will seek to use its existing partnership base to build upon relationships with organisations to maximise the use of resources. Knowsley's key partners include:-

- The Liverpool City Region Combined Authority and its constituent local authorities;
- The Knowsley Partnership;
- The Knowsley Clinical Commissioning Group;
- Merseyside Police;
- Merseyside Fire and Rescue Service;
- The local business community, including the Knowsley Chamber of Industry and Commerce;
- Voluntary sector and community organisations;
- Merseytravel;
- Merseyside Recycling and Waste Authority;
- The Education Sector (including Knowsley Community College, Diocesan Authorities, Connexions, the Skills Funding Agency, Further and Higher Education Institutions, Academies and Academy Trusts);
- Registered Housing Providers; and,
- Other local authorities.

## **2.6 Rules for Capital Expenditure**

The Council's Constitution is available on the Authority's website and sets out the procedures to be followed in respect of capital expenditure. Expenditure on a capital scheme is subject to the Contract Procedural Rules as is the case for any other Council expenditure. Part 6 of the Financial Procedure Rules deals specifically with the management of capital expenditure.



## **2.7 Monitoring and Managing the Capital Programme**

- 2.7.1 The Council's Capital Programme is underpinned by a robust and transparent audit trail from approval to spending and reporting. Depending upon the estimated costs of a project, there are various ways in which approval can be given (the Financial Procedure Rules provide guidance). Once projects have been approved, they are closely monitored by project officers and finance officers to ensure that outputs/outcomes are being delivered and that expenditure is being committed appropriately in line with the Council's Constitution. Investment appraisal is a continuous process from the decision to invest to an ongoing evaluation of the value added from the investment.
- 2.7.2 Capital programmes and projects are monitored in the first instance within each Service. The Capital Programme allocated to each Service is the responsibility of the relevant Executive Director. Individual schemes will be allocated to a senior officer who has responsibility to ensure that the project is managed and delivered on time and within budget and that any variances are reported in accordance with Financial Procedure Rules.
- 2.7.3 The overall Capital Programme is reported to the Cabinet at key stages throughout the year. The reports comprise of a summary of spending to date, commitments to date, updated available resources position and any slippage. The report forms the basis for decision-making with regard to allocation of future resources on a three-year rolling programme.

2.7.4 The table below shows the key reporting dates in the life cycle of a typical capital scheme:-

<b>Month</b>	<b>Activity</b>
September - December	A potential capital scheme is identified as part of the budget setting process. A Capital Investment Outline is produced to ensure that the investment meets the priorities of the Council.
March	The scheme is approved as a “new start” as part of the Council’s Capital Programme (i.e. contained within the budget proposals considered by the Council).
Quarterly	Up to date spending positions and any rephasing requirements are reported on a quarterly basis as part of the budget monitoring reports to the Executive Director.
July, October and January	Up to date spending positions and any rephasing requirements are included within the quarterly consolidated Capital Programme Monitoring Reports.
April – June	Capital spending on the scheme for the financial year ended 31 March is reported as part of the Final Accounts and Statement of Accounts process.

## **2.8 Existing Asset Base**

2.8.1 The efficient use of assets is a necessary component of effective service delivery and therefore a strategy must exist for ensuring appropriate resources are in place to meet optimum expenditure requirements. In addition to the capital monies for large-scale new build within the Borough, sufficient provision should be made for the upkeep and maintenance of the Council’s existing asset portfolio within the framework of the Council’s Asset Management Plans.

2.8.2 The Capital Strategy and asset management planning between them set out the requirements for capital investment for the Council. The former links capital investment to service priorities and the latter identifies the cost of asset maintenance.

### **Links to further documents:-**

Financial Procedure Rules link:-

[Knowsley.gov.uk/Your Council/About your council/Constitution/Part4 section 7](https://www.knowsley.gov.uk/Your-Council/About-your-council/Constitution/Part4-section-7)

ANNEX A - Guidance for Completion of the Capital Investment Outline	
Section	Guidance
1. Project Title	The name by which the project will be known and a clear description of what will be provided.
2. Responsible Officer(s) and Contact Details	The officer(s) who will lead the project and ensure that all necessary consultation and monitoring is undertaken, including contact telephone number(s) and email address(es).
3. Description of Project, Purpose of Investment, and Estimated Useful Life of Resultant Asset(s)	A description of the project and an explanation of what the investment will be used for and why it is required. In addition, an estimate of the useful life of the asset(s), or each of their significant component parts, following the investment.
4. Proposed Outputs/ Outcomes/ Impact on Service Delivery (including details of how this will be measured)	Details of planned outputs/outcomes and impact on service areas. Impact on key priority performance indicators.
5. Links to Strategies and Plans	How does the scheme fit with the Asset Management Plan? What is the relationship to other Strategies, Plans and the Council's priorities?
6. Savings and Efficiencies	Will the scheme lead to any savings or efficiencies? (Figures should be added to section 11)
7. Timetable for Completion of Works	Proposed timetable, setting out timescales and any specific deadlines for both works and cash flows, including receipt of any resources.
8. Capital Cost Analysis and Scheduled Payments	Estimate of total capital costs, including land acquisition, construction costs, any plant, equipment or other fitting costs, any fees, legal charges or compensation which can be capitalised.
9. Capital Funding Sources and Scheduled Receipts	Estimate of all funding streams for the project (related budgets should be uploaded onto the Council's financial information system in accordance with Financial Procedure Rules). No prudential borrowing will be considered without first consulting Financial Management Services to approve the business case. No capital receipts can be used without prior approval.
10. Contingency Levels	The amount and percentage of contingency that has been included within the Capital Cost (section 8) and the reasons for the levels. Minimum required contingencies are 12.5% for refurbishment work and 10% for all other projects. These figures are minimum levels and individual circumstances should be assessed to ensure that adequate contingency levels are included (only in exceptional circumstances can contingencies not be included and specific agreement from the Executive Director (Resources) is required).

11. Annual Revenue Costs and Implications	Estimate of all ongoing revenue costs, including revenue implications for other service areas (including part-year effects).
12. Environmental Assessment	Details of the outcome of the Environmental Impact Assessment.
13. Exit Strategy	Details of an exit strategy where revenue costs are funded by time-limited funding.
14. Risk Management	Identification of all potential risks and actions to be taken to mitigate them.
15. Communication Issues	Who needs to be informed of the schemes and will any consultation be undertaken? If so, when and how?
16. Links to Priorities	Reference should be made to the relevance of the scheme to Council and partner agencies' strategic priorities.
17. Importance to Government and Partner Agencies	What is the nature and what are the sources of the drivers of the scheme – are there any legislative or demographic drivers?
18. Member and Community Expectations	Are there specific stakeholder expectations?
19. Outcome of Consultation with Other Directorates	<p>The lead officer(s) should liaise with other officers across the Authority to ascertain whether any other issues should be raised or investigated – as a minimum, comments must be sought and reported on the following areas:-</p> <p>Financial Issues</p> <ul style="list-style-type: none"> <li>- VAT – what impact does the planned project have on the Council's current and future VAT liability? (e.g. a newly constructed building which, once operational, will be generating future income streams which are exempt for VAT purposes could actually cost the Council money)</li> <li>- Treasury Management – are there significant levels of expenditure and income connected with the project which impact on the Council's current and future cash flows?</li> <li>- Insurance – are specific levels of insurance required to cover the project?</li> </ul> <p>Human Resources</p> <ul style="list-style-type: none"> <li>- Staffing – will the project need to involve any recruitment or redeployment?</li> <li>- Training – will the project give rise to any training requirements?</li> </ul> <p>Asset Management</p> <ul style="list-style-type: none"> <li>- Ownership – who will own the asset and at what stage (if any) will it need to be recorded in the Council's Asset Register?</li> <li>- Maintenance – who will be responsible for</li> </ul>

	<p>maintaining the asset once the capital construction phase is complete and where will this be funded from (e.g. grounds Maintenance)?</p> <p>Legal Conveyancing, Contracts and Legal Powers</p> <p>Planning</p> <p>Information Technology</p>
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**KNOWSLEY METROPOLITAN BOROUGH COUNCIL**

**PAY POLICY STATEMENT – MARCH 2016**

**INTRODUCTION**

Knowsley Metropolitan Borough Council is committed to transparency and fairness in the payment and remuneration of all of its employees.

In 2015/16, the Council had an overall pay bill of £71.209m (including National Insurance and superannuation costs, but excluding the pay for staff employed by the Borough's schools who are employed independently of the Authority). The Council currently has a workforce of 2,826 people. These figures do not include casual workers or staff employed by the Borough's schools, who as stated above are employed independently of the Authority.

The Council continued to review its senior officer organisational structure and the associated pay and grading arrangements during 2015/16. A full scale review early in 2015 achieved permanent savings of £0.810m and followed a reduction in senior management pay costs of approximately £8m since 2009/10. The Council's senior management workforce has reduced by almost half in that time – far more extensively than the remaining officer structure. A full pay and grading review of senior management posts (incorporating job evaluation) is currently under way and the outcome of this is scheduled to be implemented during 2016. As the shape and size of services change, the Council will ensure that the costs of senior management reduce in line with reductions in overall service expenditure.

The Authority has already completed a fundamental pay and grading review in relation to all other Council posts except teaching staff (i.e. those not covered by the senior management review mentioned above). Whilst no direct pay savings were achieved from this review, it enabled the Authority to implement an equal pay compliant pay structure, which will also help it to manage future pay costs.

**1. Purpose of the Statement**

- 1.1 This Pay Policy Statement sets out the Council's approach to pay policy in accordance with the requirements of Section 38 of the Localism Act 2011 (and subsequent statutory instruments (including the Local Authorities (Data Transparency) Code 2014) and the Local Audit and Accountability Act 2014.

- 1.2 In accordance with legislation, this Pay Policy Statement will come into immediate effect once approved by a full meeting of the Council and will then be subject to review on at least an annual basis, the policy for the subsequent financial year being approved by 31 March each year.
- 1.3 In determining the pay and remuneration of all of its employees, the Council will comply with all relevant employment legislation.

## **2. Pay Structure**

- 2.1 The Council uses nationally negotiated pay rates as the basis for its local pay structure, which determines the salaries of the majority of its workforce. For 2016/17, the Council will again apply the Living Wage (as determined by the Living Wage Foundation) as its minimum level of pay.
- 2.2 All other pay-related allowances are the subject of either nationally or locally negotiated rates, having been determined from time to time in accordance with collective bargaining machinery.
- 2.3 In determining its grading structure and setting remuneration levels for any posts which fall outside the scope of nationally set pay rates, the Council takes account of the need to ensure value for money in respect of the use of public expenditure. This is balanced against the need to recruit and retain employees who are able to meet the requirements of providing high quality services to the community.
- 2.4 New appointments will normally be made at the minimum of the relevant pay scale for the grade. From time to time, it may be necessary to take account of external pay levels in the labour market in determining starting salary levels or in order to attract and retain employees with particular experience, skills and/or capacity.
- 2.5 Following implementation of the pay and grading review during 2013/14, the Authority agreed a policy on the application of market supplements. Subject to the satisfaction of qualifying criteria, this policy allows the Authority to apply a temporary recruitment and retention premium of up to 10% of the basic salary for a particular job. Any such pay supplement is subject to approval by the relevant Assistant Executive Director in consultation with the Executive Member under whose remit the specific service falls and periodic review thereafter. To date, no such supplements have been applied.



### 3. Senior Officer Remuneration

- 3.1 For the purposes of this Statement (other than the references to senior officer pay savings and the senior officer pay and grading review, both of which affect **all** senior officer posts), the Council has defined “senior officers” as including the Council’s Head of Paid Service, Executive Directors (including the Assistant Chief Executive) and Assistant Executive Directors. These categories include all of the Council’s statutory chief officers in accordance with the Local Government and Housing Act 1989 and the Localism Act 2011.
- 3.2 These posts are set out below together with the associated total remuneration:-

Post Title	Salary Band
Chief Executive	£160,000 per annum (fixed salary)
Executive Directors (including the Assistant Chief Executive)	£102,000 to £112,000 per annum
Assistant Executive Directors	£86,700 to £96,900 per annum

- 3.3 In relation to posts involving an annual salary in excess of £99,999, there has been no annual “cost of living” pay award for any such post since April 2008. Compared to the Retail Price Index, this equates to a real terms cut in pay equivalent to approximately 24%.
- 3.4 At the point of drafting this Statement, national pay offers for 2016/17 and 2017/18 in respect of Local Authority Chief Officers and Chief Executives remain unresolved.

In respect of the overall cost of the Council’s wider senior officer structure (i.e. all officers paid at grade PMG 1 or equivalent), the Council will ensure that, as the size and shape of the Authority’s services change, senior officer pay costs will remain in line with changes in overall service expenditure. Senior officer costs will therefore not exceed 3% of total gross expenditure each year.

#### **4. Additions to Salary**

- 4.1 In addition to the salaries quoted at paragraph 3.2 above, some posts receive additional remuneration as outlined in the table below:-

All officers involved in delivering Local, Parliamentary and/or European Elections and/or Referenda	Duty payments as determined locally and/or by statute depending on the duties concerned.
All eligible employees at all grades	Pension contributions paid to the Local Government Pension Scheme. The contribution rates are set by actuaries advising the Merseyside Pension Fund.

- 4.2 The arrangements and factors considered in determining an individual senior officer's progression through the relevant pay scale are based upon that individual's performance and capability in the relevant post. In this respect, all of the post holders are assessed by their relevant line managers.
- 4.3 Where the Council is unable to recruit a chief officer, or there is a need for interim support to provide cover for a substantive chief officer post, the Council will consider engaging individuals under a "contract for service". Such contracts will be sourced through an appropriate procurement process in order to ensure that the Council is able to demonstrate value for money in securing the relevant service. It should be noted that the Council is not required to make or fund directly either superannuation or National Insurance contributions for such individuals.

#### **5. Senior Officer Recruitment**

- 5.1 Apart from the potential application of a market supplement payment as described in paragraph 2.5 of this statement, the Council does not make any "golden hello" payment or any other incentive payment to its senior managers upon recruitment. Where appropriate, the Council pays removal and relocation allowances up to a maximum of £16,981 upon the presentation of approved receipts.
- 5.2 The Council's policy and procedures with regard to the recruitment of senior officers are detailed within its Recruitment Policy.
- 5.3 When recruiting to all posts, the Council will take full and proper account of all provisions of relevant employment law and its own policies.

- 5.4 The determination of the remuneration to be offered to any newly appointed senior officer will be in accordance with the pay structure and relevant policies in place at the time of recruitment. As previously stated, the pay structure may be affected during 2016 by the ongoing Senior Officer Job Evaluation exercise.

## **6. Performance Related Pay and Bonuses for Senior Officers**

- 6.1 With the exception of annual progression through the incremental scale of the relevant grade (which is itself subject to satisfactory performance), the level of remuneration is not variable dependent upon the achievement of defined targets.
- 6.2 The Council does not award any performance related pay or bonuses to its senior officers.
- 6.3 To meet specific operational requirements, it may be necessary for an individual to take on additional duties to his/her identified role on a temporary basis. Any such arrangements for a senior officer would be considered and determined by the Council's Employment and Appointments Committee. Any associated temporary additional remuneration agreed would be applied in accordance with Council policy.

## **7. Payments to Senior Officers upon Termination**

- 7.1 The Council's approach to these issues is determined by the circumstances of the termination of the employment in each case. For example, this might be via Voluntary Severance, Compulsory Redundancy or Early Retirement.
- 7.2 The Council's approach to statutory and discretionary payments upon termination of a senior officer's employment prior to reaching normal retirement age is set out within its policy statement in accordance with the Local Government Pension Scheme (Administration) Regulations 2013 (Regulations 60(1) and (5)) and the Local Government Pension Scheme (Administration) Regulations 2008 (Regulation 66(1)). In this respect, the Council's treatment of senior officers is identical to its treatment of any other employee.
- 7.3 Any payments falling outside of these provisions or the relevant periods of notice within the contract of employment shall be subject to a formal decision made in accordance with the Council's Scheme of Delegation.

## **8. Publication of Senior Officer Remuneration Information**

- 8.1 Upon approval at a full meeting of the Council in accordance with legislation, this Statement will be published on the Council's web site.
- 8.2 In addition and in accordance with the prevailing legislation and Government codes, for posts where the full-time equivalent salary is at least £50,000, the Council's Annual Statement of Accounts will include details of:-
- salary, fees or allowances paid to or receivable by the person in the current and previous year;
  - any bonuses paid or receivable by the person in the current and previous year;
  - any sums payable by way of expenses allowance which are chargeable to United Kingdom income tax;
  - any compensation for loss of employment and any other payments connected with termination; and,
  - any benefits received which do not fall within the above.
- 8.3 Any other related information (such as job responsibilities and the organisation's structure) will also be made available in the Council's Annual Statement of Accounts.

## **9. Lowest Paid Employees**

- 9.1 During 2015/16 and as part of its commitment to address low pay, the Council took the decision to apply the Living Wage. The Government's "National Living Wage" (which will be the statutory National Minimum Wage once enacted) will become £7.20 per hour with effect from 1 April 2016. The Council currently considers the Living Wage Foundation's assessment of a true "Living Wage" to be a more accurate reflection of the pressures faced by the low paid. The Council therefore applied a Living Wage for Knowsley Council employees of £7.85 per hour from 1 October 2015 and will continue this approach in 2016/17.

- 9.2 Following the Living Wage Foundation's announcement in November 2015 of an increase in the Living Wage rate to £8.25 per hour, the Council has decided to apply this new rate to Council employees with effect from 1 April 2016 and to manage the implementation of this alongside the 2016/17 local government pay award, which may not be agreed by 1 April 2016. The estimated costs of both of these pay increases are reflected in the Council's medium-term financial forecasts. Any decision to apply future increases in the Living Wage will be based on affordability and the likely impact on the Council's pay structure
- 9.3 Currently, the Council's lowest paid employee is remunerated at £7.85 per hour - an equivalent rate of £14,736 per annum. From 1 April 2016, the lowest paid employee in the Council will be remunerated at £8.25 per hour - an equivalent rate of £15,486 per annum. The Council's pay structure will be subject to review on at least an annual basis.
- 9.4 The relationship between the rates of pay for the lowest paid and those of senior officers is determined by the processes used for determining pay and grading structures as set out earlier in this statement. The applicable pay multiple (i.e. based on employee and pay information as at 1 April 2016) will be published on the Council's website after that date.
- 9.5 The median average pay (excluding National Insurance and superannuation) of a full-time employee within the Council is currently approximately £21,530. The mean average is £23,764. These average salary figures discount sessional pay for casual workers and do not include staff employed by the Borough's schools, who are employed independently of the Authority.
- 9.6 As part of its overall and ongoing monitoring of alignment with external pay markets both within and outside the sector, the Council will use available benchmark information and specialist advice as appropriate.

## **10. Accountability and Decision-Making**

In accordance with the Council's Constitution, the Employment and Appointments Committee is responsible for decision-making in relation to the recruitment, pay, terms and conditions and severance arrangements in relation to the Council's Chief Executive, Executive Directors, and Assistant Executive Directors.

**11. Re-employment/Re-engagement of Former Senior Officers**

The Council will not re-employ any senior officer who was previously made redundant by the Council, and will not later re-engage such officers under a contract for service.

Knowsley Council  
March 2016