

Public Report
Birmingham City Council
Report to Cabinet
13 November 2018



Subject: Budget 2019/20+ Consultation
Report of: Chief Executive and Director of Finance & Governance
Relevant Cabinet Member: Councillor Brett O'Reilly
Relevant O &S Chair(s): Councillor Sir Albert Bore
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Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, add Forward Plan Reference:		
Is the decision eligible for call-in?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, provide exempt information paragraph number or reason if confidential :		

1 Executive Summary

- 1.1 This report sets out the City Council's proposed Medium Term Financial Strategy (MTFS) for the period 2019/20 to 2022/23. The objective of this Strategy is to provide a financial framework within which the Council's priorities

can be delivered within the context of financial stability and is sustainable in the medium term.

- 1.2 The report provides the basis for consultation for revenue budget saving proposals of £18.2m in 2019/20, growing to £26.0m in 2022/23, and a proposed overall Council Tax increase of 4.99% in 2019/20.
- 1.3 The Strategy is based around a number of key aims:
 - i. To re-focus the allocation of resources so that, over time, priority areas receive additional resources whilst ensuring that services are defined on the basis of a clear alignment between priority and affordability
 - ii. To ensure that the Council sets a balanced budget for 2019/20 and that its long term financial health and viability remains sound.
 - iii. To plan the level of fees, charges and taxation in line with levels that the Council regard as being necessary, acceptable and affordable to meet the Council's aims, objectives, policies and priorities whilst gradually reducing the Council's reliance on Central Government funding; and
 - iv. To protect its reserves for 'rainy day' events and not seek to use them to meet ongoing pressures or where savings have not been achieved.
- 1.4 This report outlines the Cabinet's draft budget proposals for this period to deliver its priority outcomes for residents in a financially sustainable way. This document sets out the Council's proposals for 2019/20 and indicative proposals for the following 3 years. From next year, we plan to move to a two-year firm budget.
- 1.5 Since April 2017, the West Midlands, including Birmingham City Council has been participating in a pilot scheme to retain 100% of the business rates collected locally in return for the cessation of Revenue Support Grant (RSG) from the Government. Together with income from Council Tax, these two sources of funding now account for more than 93% of the Council's net budget. It is vitally important that we focus on facilitating economic growth, growing both our Council Tax and Business Rates base and developing our approach to financial management that ensures that the Council manages its spending within its available resources.
- 1.6 At the same time, we face the uncertainties of Brexit and its potential impact on the national and local economy; the need to respond to changing behaviours in reducing demand and the need to build resilient communities and improve access to our services. We must also take steps to reduce our costs by managing services in more business like ways working with our partners to improve outcomes for residents.

- 1.7 The Council will continue to invest in its priorities including services for its most vulnerable citizens, delivering a range of efficient and effective services to Birmingham residents. However, ongoing service pressures and falling resources mean that it is increasingly difficult for the Council to continue to deliver services without taking some hard decisions. If implemented, the savings proposals put forward for consultation in this report would affect a range of services provided by the Council
- 1.8 These draft proposals will be used as the basis for consultation with a range of stakeholders including residents, businesses, trades unions and partners. Analysis on consultation feedback will be considered by the Cabinet before they finalise their budget proposals that will be recommended to Council on 26th February 2019 when it will set the budget.
- 1.9 The Council has made annual savings of £690m over the last 8 years, but to be sustainable in the future the Council will need to continue to stop, change, reduce and in some cases, develop new services. This report outlines a different approach to financial management being developed by the Council with the aim of aligning delivery of the Executive's key outcomes (described in the Council Plan 2018-22) with affordability.
- 1.10 This is to help the Council to invest its reducing resources in activities that have the greatest impact on the delivery of priority outcomes. The Council wants to achieve better outcomes for all residents by improving quality and performance, managing demand of its high cost services and becoming more commercial. Consequently financial plans have been drawn up on the basis of its priority outcomes and will support the commissioning and procuring of services more cost effectively to enable the Council to become a modern and sustainable organisation.
- 1.11 The proposals set out in this report are based on the most recent projections of demand for services and forecasts of likely costs.
- 1.12 The proposed 2019/20 budget position assumes a Council Tax increase of 4.99%, including a general increase in Council Tax of 2.99% and a further 2.00% increase in relation to the Adult Social Care Precept. The final Council Tax increase will be subject to Full Council approval in February 2019.
- 1.13 If implemented, the savings proposals in this report would deliver a balanced budget for 2019/20. Details on individual savings proposals are set out in Budget Consultation 2019+ (November 2018) provided in Appendix 1.

2 Recommendations

- 2.1 Approve the budget consultation document (attached at Appendix 1) and to note that formal budget consultation will begin on 13th November 2018 but that some proposals may be subject to different or further consultation when proposals are finalised;
- 2.2 To note the aims and objectives of the Medium Term Financial Strategy which will be presented to Council for approval in February 2019;
- 2.3 To note that the report contains draft proposals for reducing cost and generating income that amount to £18.2m in 2019/20;
- 2.4 To note that the Executive's budget proposals for consultation are based on the assumptions detailed within the MTFS and that this includes a Council Tax increase of 4.99%, 2.99% under general powers to increase Council Tax without a referendum and 2.00% Social Care Precept;
- 2.5 To note that the Executive's initial budget proposals will impact on staffing and that consultation will be undertaken in line with legislation and the Council's agreed processes before proposals are implemented.
- 2.6 To agree the contents of this report are not subject to call-in. Under the City Council's Constitution, Section 3 - Meetings Administration, para 3.7- 'Immediate Decision Implementation' set out the circumstances under which exemptions from call-in may be made, Specifically, "if the interests of the Council are jeopardised unless an executive decision is implemented immediately then the Chief Executive in consultation with the Leader (or Deputy Leader in his/her absence) may designate such executive decision as so urgent that its implementation cannot wait until the expiry of the call-in period."

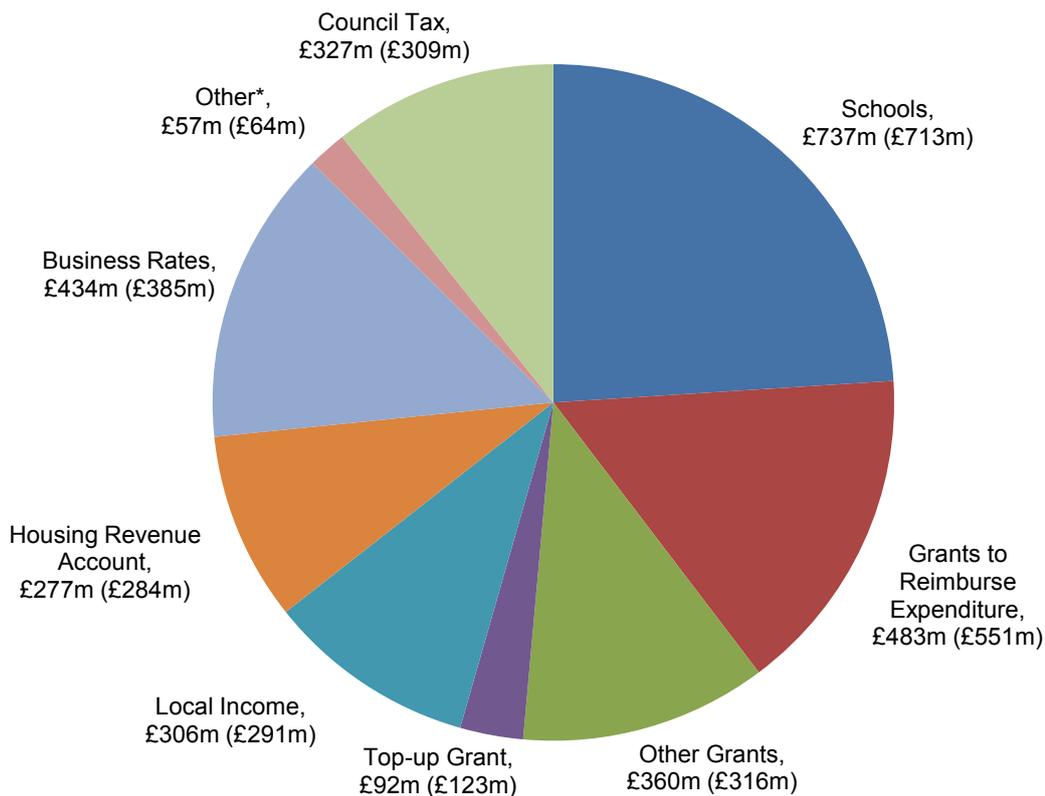
S 30(6) Local Government Finance Act 1996 (LGFA) provides that the Council has to set its budget before 11th March each year and it is due to be considered at the Council meeting on 26th February 2019. The Council must begin consultation on the draft budget and savings proposals for 2019/20 – 2022/23 as soon as possible to allow enough time for the Council to consider and respond to feedback from the public in respect of the proposals. A delay in approving the draft Budget Consultation document until December's Cabinet would leave insufficient time for the Council to undertake and fulfil the legal consultation obligations prior to the approval of the 2019/20 Budget at Council in February.

3. Background

- 3.1 The Council is a large and influential local and regional organisation managing the delivery of a vast range of services either directly or through/with others. Its

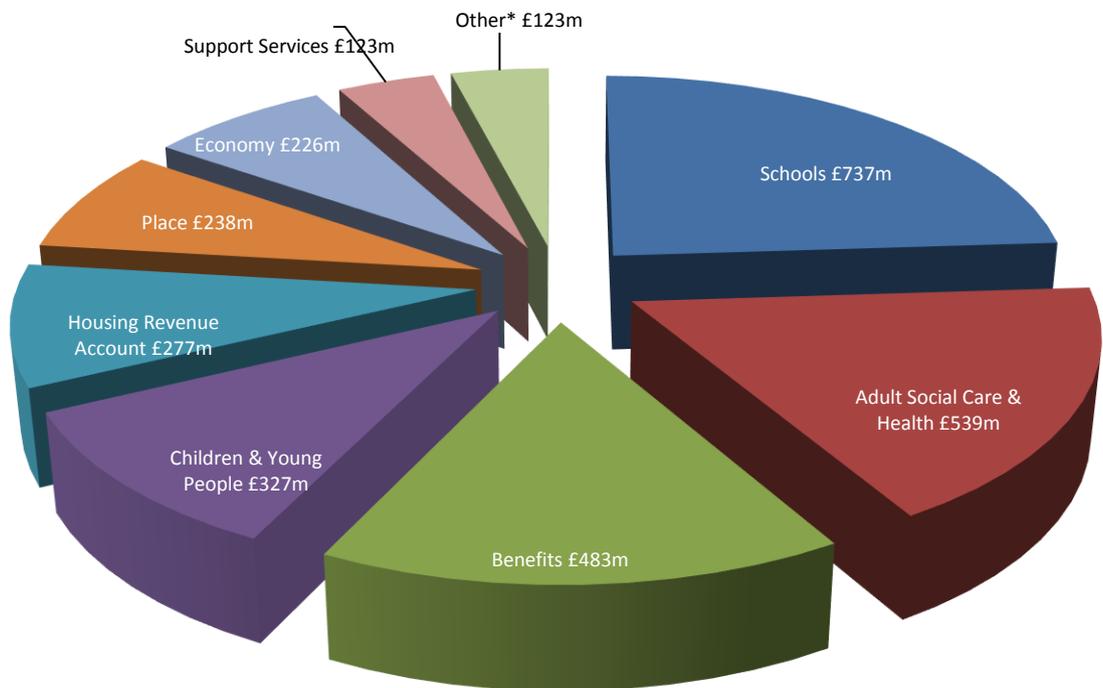
core purpose is to improve the quality of life for residents and effective financial management is key to this.

- 3.2 The MTFS focuses on determining the financial position for the period up to and including 2020/21 and takes into account major issues affecting the Council's finances, including international, national and regional economic influences as well as local factors and priorities. It identifies risks and looks to mitigate those risks through provisions within reserves and balances to ensure the council has adequate resources to cover the uncertainty and risk.
- 3.3 It provides the framework and assumptions for developing the overall budget, taking into account any unavoidable service pressures. The MTFS recognises the key role that financial resources play in the future delivery of services, and enabling the effective planning, management and delivery of those services. The MTFS is therefore key to the effective delivery of the Council's overall aims of achieving better budgetary control.
- 3.4 The chart below shows that the Council currently receives (2018/19 with 2017/18 figures in brackets) almost £3.1bn in income from Central Government Grants, Council Tax, Business Rates, Rents, and other Fees and Charges.



* Other includes: Use of Reserves & Balances and costs recovered by charging capital accounts

3.5 The chart below shows how this money is spent. In two areas, schools and for benefit payments, money is simply passported through the Council. The Council also needs to include two separate plans: Housing (within the Housing Revenue Account) of £277m and the remainder (General Fund) being used to deliver the Council's outcomes and priorities.



* Other includes Corporately Managed Budgets and Use of Reserves & Balances

3.6 It is important that Members are aware of the major financial challenges and opportunities and that they make informed decisions. The Council regularly revises its Medium Term Financial Strategy (MTFS) so that the financial position is clear for budget proposals to be drawn up for the forthcoming year. It is important for the Council to set out its budget proposals and emerging ideas for savings in the context of the MTFS over a four year period 2019/20 to 2022/23.

3.7 It is important to note commitments made by the City Council to balance its budget for 2019/20 without the use of reserves to meet spending pressures or the failure to deliver services. This is an important principle for the City Council.

3.8 In order to meet the financial challenges and service pressures we face, total further savings (including those already in financial plans) of £86.7m are

required from the General Fund budget by 2022/23 to be sustainable – this represents around 10% of the total General Fund budget

- 3.9 The Cabinet wants to channel its resources towards agreed priority outcomes and to do this properly and transparently requires a different approach through aligning priorities more closely with available resources without the need to use reserves to support ongoing spending.
- 3.10 The outcomes of the consultation and Council's response to this will inform the Medium Term Financial Plan for the period from 1 April 2019 onwards. The consultation document seeks views on the proposed approach to addressing the financial challenges and building a financially sustainable future.
- 3.11 The Council's Vision is to be a city of growth where every child, citizen and place matters. This Vision and the Council's priorities were incorporated in the Birmingham Council Plan: 2018-2022 in July 2018, and this document set out the Council's priorities and key measures by which success will be measured.

Outcome	Why is this important?
Birmingham is an entrepreneurial city to learn, work and invest in	We want a city that invests in its people so that everyone can have opportunities to realise their potential through lifelong learning, skills and good jobs. We want to invest in the buildings and transport connections of our city to provide better places to live and work and enable businesses to prosper. HS2 will be a key milestone in the city's development and we must make the most of this opportunity to boost our economy and key growth sectors, and enable citizens to access employment.
Birmingham is an aspirational city to grow up in	We want to respond to our unique profile as one of the youngest cities in Europe to give all children from every background and community the best start in life with a clear pathway to achieve success and realise their full potential.
Birmingham is a fulfilling city to age well in	We want citizens to live more active, longer, healthier and independent lives. We want to reduce social isolation so that people can make positive choices and take control of their wellbeing.
Birmingham is a great city to live in	We want Birmingham to be a sustainable city of vibrant culture, flourishing neighbourhoods with good quality housing. A city with clean air, safe and clean streets and green spaces. We want to be a city where our citizens have pride in where they live, have a strong sense of belonging and a voice in how Birmingham is run.
Birmingham residents gain the maximum benefit from hosting the Commonwealth Games	Hosting the Commonwealth Games gives us a global stage to use the transformational power of sport and culture to project a positive image of our city, promote growth and provide a long-lasting legacy to the citizens of our city.

- 3.12 The Council's key priorities to deliver its outcomes include:
- Creating investment opportunities and fostering economic growth, thereby leading to improved opportunities for citizens
 - Improvement of protection of vulnerable children and young people
 - Improving educational attainment and standards
 - Improving care for the elderly and reducing social isolation and loneliness
 - Development of the transportation infrastructure

- Delivery of the Commonwealth Games, with Birmingham residents gaining maximum benefit from being the host city.
- 3.13 The Council, as with other local authorities across the country, is facing increased pressure as a result of rising demand for services at a time when its resources are not increasing at the same rate. Nationally, Central Government funding to local government would have fallen by 63% in real terms by 2019/20 and core spending power would have reduced by 24%.
- 3.14 Coupled with this, there has been growth in actual or forecast demand for a range of core services, including looked after children, adults aged 65 and over, homelessness, etc. Recent events at other local authorities illustrate the challenges facing local government, particularly those authorities with responsibility for social care.
- 3.15 Over the eight years to 2018/19 the City Council has had to make overall annual savings of around £690m. The Council estimates that it needs to make further annual savings of £86m by 2022/23, meaning total annual savings of around £775m over the twelve year period. The Council approved plans to deliver £64m of further savings when it set its budget in February 2018. Subsequently, £5m of these plans have been assessed as been non-deliverable. In addition to the existing plans, we anticipate having to make extra annual savings of £26m between 2019/20 and 2022/23, which are described in the consultation document.
- 3.16 The approach to medium term financial planning for the period 2019/20 and beyond has been based on the Council's Priorities and the key principles outlined below:
- The plan will be a reflection of the Council's priorities based on what the new Council wishes to achieve;
 - Recurrent expenditure not being funded from non- recurrent resources (reserves);
 - Strong governance and assurance and accountable for delivery of service outcomes within budget;
 - Closer integration of capital and revenue processes
- 3.17 The remainder of the report details the financial position facing the Council and the specific proposals put forward for consultation. These proposals are set out set out in Budget Consultation 2019+ (November 2018) provided in Appendix 1.

4 Reserves and balances

- 4.1 To ensure proposals are considered in a full financial picture, it is important to set out the expected position on Reserves and the General Fund Balance.

Reserves

4.2 The Council has a number of reserves that have been set aside for specific reasons. These reserves can be split into three categories:

- Those required to be kept by statute or accounting guidance. For example, revenue grants reserve, school balances etc. These reserves can only be utilised for the purpose for which they have been set aside.
- Those set aside for a future event that has a high probability of occurring. For example the Highways PFI Reserve;
- Those useable reserves held for non-specific events that cannot yet be foreseen.

4.3 In light of the increasing level of risk and uncertainty identified within the MTFs and the increased probability of resources being required to support its delivery, a full review of useable reserves and provisions is being undertaken. In closing the accounts for 2017/18, a view was taken on maintaining and strengthening, where necessary, those reserve specifically earmarked to support the highest areas of risk resulting in the rationalisation of reserves and provisions where possible and in some cases additional funding being set aside.

4.4 The table below shows the forecast position over the MTFs period in relation to reserves which are not held for specific purposes is as follows:

Table 1	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Invest to Save Reserve	37.6	27.4	20.9	23.9	28.3
Financial Resilience Reserve	86.7	80.8	74.9	69.9	65.9
General Balances	28.9	28.9	28.9	28.9	28.9
Total	153.2	137.1	124.7	122.7	123.1

4.5 The non-earmarked balances are forecast to be £153.2m at the end of 2018/19 providing the current year financial overspend is addressed; if not this balance will reduce to £140.3. The required level of balance is determined by assessing the level of risk the Council faces.

4.6 As the Council is facing significant cuts in funding and increasing demand, the level of risk is heightened. The assessed minimum balance will be reviewed for

the MTFs update in February 2019, taking into consideration both risk and affordability.

5. Resourcing

- 5.1 The proposals in this consultation assume a combined general and Social Care Precept increase in Council Tax of 4.99% in 2019/20 and 1.99% in later years. As part of its 2015 Spending Review, the Government announced new powers for Councils responsible for adult social care to raise additional Council Tax equivalent to 2% per annum for a “Social Care Precept”. The Council has applied this additional charge for 2016/17 through to 2018/19, and will do so for 2019/20. Over the four years, this will have generated additional funding of around £24.0m, to be used for adult social care. The Council has carried through reviews of discounts being awarded for Council tax in order to ensure that everyone pays their fair share for the services provided by the Council. Improvements have been made to the Council Tax taxbase following reviews of Single Persons Discounts awarded, along with the doubling of empty homes premium for long term empty properties. Growth in homes in Birmingham has also been included in current projections of Council tax income.
- 5.2 During 2019 a proposal to review the amount of Council Tax Support awarded in future years will be drawn up. The proposals will be subject to extensive consultation and dependant on the outcome of the consultation changes may be made to the level of support awarded.
- 5.3 In respect of Business Rates, the Council has entered into an agreement with Government to Pilot 100% business rates retention locally. This means that all business rates generated in Birmingham remain locally to help provide services, providing a greater financial incentive to grow businesses. It is estimated that available income from business rates will increase by £24.5m in 2019/20.
- 5.4 The Council’s other grants which can be used to support general expenditure are expected to reduce by £29.7m when compared to 2018/19.
- 5.5 The Council is in the final year where there is provision of a “guaranteed minimum” financial settlement. This means we have relative certainty regarding resources for 2019/20 only. Even so, final figures will not be announced until 6th December 2018, and so adjustments may need to be made in the light of this.
- 5.6 However, following this there is significant uncertainty including:
- The detailed implications of announcements made in the Chancellor’s Autumn Budget;

- What the Government will announce in the next Spending Review regarding plans for local government funding; and
- The impact of a “fair funding” review being carried out by the Government on the distribution of local government funding – this is due to be implemented (at least in part) by 2020/21. The impact of this reform may not be known until late 2019 and could cause variations to our current assumptions.

Though the Government is yet to announce funding levels beyond the current Spending Review, the Council’s current assumption is that the settlement funding assessment in 2020/21 will remain unchanged, apart from inflationary increases.

- 5.7 Table 2 below summarises the overall position. If all the proposals included within this report were to be accepted, this would remove the forecasted gap in 2019/20 and 2020/21. Alternative savings will need to be identified for any proposals that are not accepted.

Table 2	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
Changes in core Government grants	29.7	30.2	28.2	27.4
Changes in Council Tax, Business Rates and related grants	(27.0)	(54.1)	(79.3)	(102.3)
Pay & Price Inflation	17.2	37.9	56.6	75.9
Budget Pressures	23.9	32.0	33.7	38.4
Net Payment to/(from) Reserves	2.4	4.7	32.9	20.2
Corporately Managed Budgets	3.6	22.3	23.2	27.1
Savings requirement	49.8	73.0	95.3	86.7
Savings in Financial Plan 2018+	(35.6)	(54.8)	(64.2)	(64.3)
Savings not deliverable	4.0	4.6	4.6	4.6
New Savings being consulted on	(18.2)	(22.8)	(24.1)	(26.0)
Further savings to be identified for future years	0.0	0.0	11.6	1.0

- 5.8 Following agreement by Cabinet, the proposals in this report will be subject to a 6 week public consultation, ending on 31st December 2018. Comments from the public will be invited at face-to-face meetings with the public and with businesses and via digital channels.
- 5.9 The responses from this consultation will inform the finalisation of the Council’s budget for consideration by Council in February 2019.

6 Options considered and Recommended Proposal

- 6.1 The proposals in the attached draft budget consultation document reflect the evaluation of alternative options for balancing the General Fund budget for 2019/20, and in setting the financial strategy in the medium term. The purpose of this consultation is, however, to invite the public and partners to consider

these savings proposals, provide feedback and, if they wish, make alternative suggestions.

- 6.2 Alternative options for revenue spending and MTFS assumptions form an integral part of the development of the overall MTFS that will be considered at the Council budget setting meeting on 26th February 2019. The current set of assumptions contained within this report will be reviewed on a regular basis but represent the most up to date information available at this time.
- 6.3 The proposals presented in this report represent the Executive's draft budget for the period 2019/20 – 2022/23. Of these, many proposals for 2019/20 to 2022/23 will also require further specific consultation with service users. The Executive have considered and rejected some proposals put forward by officers as they were not considered to align with the Executive's priorities and values. In addition, there are a number of variables and alternative options that could be implemented as part of the budget.

7 Consultation

- 7.1 Internal - Cabinet Members, Corporate Directors, the City Solicitor, Director of Human Resources, Director of Public Health and Assistant Director (Communications) have been consulted in the preparation of proposals set out in this report.
- 7.2 External - The draft document attached as an Appendix to this report will form the basis of public consultation on the overall budget proposals. This will be complemented, where appropriate, by consultation with stakeholders and staff on individual savings proposals.

8 Risk Management

- 8.1 The inability to deliver a balanced budget is one of the Council's main corporate risks. The proposals within this report are aimed to try to mitigate this risk. The scale and scope of some of the savings are such that they represent a significant risk of non-achievement in the future. The savings programme will continue to be monitored robustly and reported to senior management and Members so that they are kept up to date with the progress of savings delivery.

9 Compliance Issues:

9.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

- 9.1.1 The Council will continue to be faced with resource constraints over the medium term, which will have an impact on service delivery. The financial proposals set out in the attached consultation document have been formulated in the context

of the Council's policy priorities. In this way, these proposals are aligned to existing policy priorities.

9.2 Legal Implications

- 9.2.1 The Local Government Finance Act 1992 (as amended) requires local authorities to calculate their Council Tax requirement, after having regard to all items of income and expenditure for the forthcoming year and, after taking account of the principles set out by the Government, to determine whether a referendum is required on the proposed Council Tax increase. In practice, therefore, this means that a local authority must set a balanced budget for the forthcoming financial year, in this case 2019/20.
- 9.2.2 The provisions of the LGFA 1992 set out what the Council has to base its budget calculation upon and require the council to set a balance budget with regard to the advice of its Chief Finance officer (s151). The setting of the budget is a function reserved to Full Council who will consider the draft budget which has been prepared by the Executive.
- 9.2.3 If budget proposals result in decommissioning or re-shaping services, then the law will either require specific statutory responsibility to consult on those proposals or the common law will impose an obligation to consult. A further consultation obligation is likely to arise in some cases because the Council's proposals require it to comply with or meet the objectives of the **Public Sector Equality Duty (PSED) arising under 149 Equality Act 2010**.
- 9.2.4 The PSED imposes on the Council an obligation to have 'due regard' as to what is appropriate in all the circumstances in achieving its desired outcomes. In setting the budget, the Council and individual councillors should consider the issue of discrimination before making any policy decisions that may be affected by such an issue.
- 9.2.5 In the absence of an express duty to consult, whether or not the service is a statutory service, the common law will impose an **enforceable legitimate expectation of doing so** where:
- a) There has been a promise to consult; or
 - b) There has been an established practice of consultation; or
 - c) Failure to consult would lead to conspicuous unfairness.
- 9.2.6 Subject to the overall requirements of fairness, a public authority usually has a broad discretion as to how a consultation exercise should be carried. Consultation should provide for interested organisations, service users, and

wider community to put forward options on how to reshape the service or project and Councillors before making policy decisions and setting the budget should have 'due regard' as to the likely impact of these proposals on these interested parties.

9.2.7 In addition, **Section 3 Local Government Act 1999**, imposes an obligation on local authorities to consult widely in order to determine how the Best Value duty should be fulfilled when decommissioning or re-shaping services.

9.2.8 Subject to the overall requirements of fairness, a public authority usually has a broad discretion as to **how** a consultation exercise should be carried out. However the courts will now expect the following criteria to have been followed:

- Consultation must be at a time when proposals are still at a formative stage.
- Sufficient information must be given to those impacted to permit intelligent consideration and response; and
- Adequate time must be given for this purpose; and
- The results of the consultation must be conscientiously taken into account in finalising decisions by decision makers.

9.3 Financial Implications

9.3.1 The proposals within this report are primarily concerned with financial matters. They reflect the organisational changes that the Council will need to take in order to respond to the cuts in and future uncertainties around resources and increases in demand for some core services.

9.3.2 The proposals attached, if adopted, will set out the resource envelope within which services must be managed. Final decisions on budget allocations will be taken at the City Council meeting on 26th February 2019.

9.4 Procurement Implications (if required)

9.4.1 Not applicable

9.5 Human Resources Implications (if required)

9.5.1 The size of the revenue gap means that the Council will have to find new ways of working, will change the nature of services provided and will change the way the Council works in order to meet the existing challenges. Reduction in employee numbers is inevitable and appropriate assumptions have been made

as part of the existing and new savings programmes. However, proposals made are subject to appropriate staff and trade union consultations.

9.6 Public Sector Equality Duty

- 9.6.1 Each service area is required to undertake the Councils Equality Analysis on each of the budget proposals, and to have 'due regard' to their duties under the Equality Act 2010 before a policy decision is taken by both Full Council in February 2019 and before a decision to implement that policy is then taken by Cabinet/Cabinet Member/Corporate Director which might affect those with relevant characteristics.
- 9.6.2 An initial high level analysis of the budget proposals has identified that these proposals are likely to impact on particular groups with protected characteristics. Further assessments will be undertaken through the budget consultation process to support detailed impact analysis including exploration of mitigation measures.
- 9.6.3 The Equality Impact Assessments will be considered by Members before any decisions are made as to the final proposals to be included in the final Budget report to Council. A cumulative equality assessment of the impacts across proposals will also be available with the final budget report for cabinet and full council.
- 9.6.4 A workforce impact assessment will be undertaken to understand how the overall proposals affect the make-up of the workforce. A full equalities impact assessment will be undertaken before implementation of the savings proposals.