

ITEM NO:6

DECISION-MAKER:	CABINET COUNCIL		
SUBJECT:	GENERAL FUND REVENUE BUDGET 2010/11 TO 2012/13		
DATE OF DECISION:	1ST FEBRUARY 2010 17TH FEBRUARY 2010		
REPORT OF:	CABINET MEMBER FOR RESOURCES AND WORKFORCE PLANNING		
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STATEMENT OF CONFIDENTIALITY

N/A

SUMMARY

Since the Council set its 2009/10 budget in February 2009, the Country has officially been in recession, economic growth has declined and unemployment is rising. There is a range of expert views as to when the decline will reverse and the Country will begin to see an economic upturn.

Clearly the economic climate has a direct impact upon the Council. Income levels in key areas such as car parking continue to decline and demand for certain service areas supporting those individuals most affected by the economic climate continue to rise sharply, such as benefit applications.

The Council has been taking a longer-term strategic approach to service and financial planning over a number of years, driving out significant efficiency savings year on year. However, against the current backdrop, the Council has been required to take an extremely robust approach to medium term planning and is challenging every aspect of service delivery in order to ensure that the services provided and the performance levels achieved are at an appropriate level commensurate with the stated Priorities.

As part of this over the Spring and Summer Officers prepared a detailed forecast for the 2010/11 budget together with options for additional spending and proposals for closing the estimated budget gap. These details were further developed in conjunction with the Executive and a report was presented to the Cabinet on 26th October 2009 setting out the position for 2010/11 and the broad budget and council tax proposals of the Executive.

This publication also signalled the start of a detailed consultation period with a wide range of stakeholders. Proposals affecting staff were provided to the trade unions and detailed budget proposals were given to opposition political groups on a confidential basis to enable them to start developing their own alternative budgets.

Work has been ongoing to refine the overall budget proposals and the purpose of this report is to:

- Update this information and set out the latest estimated overall financial position on the General Fund Revenue Budget for 2010/11 and
- Outline the main issues that need to be addressed in considering the Cabinets recommendations to Council on 17th February 2010.

RECOMMENDATIONS:

CABINET

It is recommended that Cabinet

- (i) Note the position on the estimated outturn and revised budget for 2009/10 as set out in paragraphs 4 to 9
- (ii) Approve £250,000 in 2009/10 for highway maintenance following the severe weather conditions at the start of this year, to be met from savings in the overall general fund budget in 2009/10.
- (iii) Note the position on the forecast roll forward budget for 2010/11 as set out in paragraphs 10 to 16.
- (iv) Delegate authority to Policy Coordinators following consultation with the relevant Cabinet Members to implement any changes to fees and charges that are part of the approved general fund budget.
- (v) Note and approve the arrangements made by the Leader, in accordance with the Local Government Act 2000, for the Cabinet Member for Resources and Workforce Planning to have responsibility for financial management and budgetary policies and strategies, and that the Cabinet Member for Resources and Workforce Planning will, in accordance with the Budget & Policy Framework Rules as set out in the Council's Constitution, be authorised accordingly to finalise the Executive's proposals in respect of the Budget for 2010/11, in consultation with the Leader, for submission to Full Council on 17th February 2010.
- (vi) Recommends that Full Council
- (vii) Notes the Consultation process that was followed outlined in Appendix 1.
- (viii) Approves the revised estimate for 2009/10 as set out in Appendix 2.
- (ix) Notes the position on the forecast roll forward budget for 2010/11 as set out in paragraphs 10 to 16.
- (x) Approves the Invest to Save Bids set out in Appendix 3.
- (xi) Approves the revenue pressures, revenue developments and revenue bids as set out in Appendices 4, 5 and 6.
- (xii) Approves the efficiencies, income and service reductions as set out in Appendix 7.

- (xiii) Approves the General Fund Revenue Budget as set out in Appendix 8 which assumes a council tax increase of 2.50%.
- (xiv) Delegates authority to the Chief Financial Officer (CFO) to action all budget changes arising from the approved pressures, bids, efficiencies, income and service reductions and incorporate any other approved amendments into the General Fund estimates.
- (xv) Notes that after taking these items into account, there is an estimated General Fund balance of £4.5M at the end of 2012/13 as detailed in paragraph 36.
- (xvi) Delegates authority to the Executive Director of Resources in consultation with the Solicitor to the Council to do anything necessary to give effect to the recommendations in this report.
- (xvii) Sets the Budget Requirement for 2010/11 at £183,269,600.
- (xviii) Notes the estimates of precepts on the Council Tax collection fund for 2010/11 as set out in Appendix 10.
- (xix) Notes the Medium Term Forecast as set out in Appendix 11.
- (xx) Authorises the Chief Executive and Chief Officers to pursue the development of the options for efficiencies, income and service reductions as set out in Appendix 7 for the financial years 2011/12 and 2012/13 and continue to develop options to close the remaining projected gaps in those years in line with the proposed Efficiency Strategy.
- (xxi) Approves a further £250,000 in 2009/10 for highway maintenance following the severe weather conditions at the start of this year, to be met from savings in the overall general fund budget in 2009/10.
- (xxii) Approves the Efficiency Strategy attached in Appendix 12.

COUNCIL

It is recommended that Council

- i) Notes the Consultation process that was followed outlined in Appendix 1.
- ii) Approves the revised estimate for 2009/10 as set out in Appendix 2.
- iii) Notes the position on the forecast roll forward budget for 2010/11 as set out in paragraphs 10 to 16.
- iv) Approves the Invest to Save Bids set out in Appendix 3.
- v) Approves the revenue pressures, revenue developments and revenue bids as set out in Appendices 4, 5 and 6.
- vi) Approves the efficiencies, income and service reductions as set out in Appendix 7.
- vii) Approves the General Fund Revenue Budget as set out in Appendix 8 which assumes a council tax increase of 2.50%.

- viii) Delegates authority to the Chief Financial Officer (CFO) to action all budget changes arising from the approved pressures, bids, efficiencies, income and service reductions and incorporate any other approved amendments into the General Fund estimates.
- ix) Notes that after taking these items into account, there is an estimated General Fund balance of £4.5M at the end of 2012/13 as detailed in paragraph 36.
- x) Delegates authority to the Executive Director of Resources in consultation with the Solicitor to the Council to do anything necessary to give effect to the recommendations in this report.
- xi) Sets the Budget Requirement for 2010/11 at £183,269,600.
- xii) Notes the estimates of precepts on the Council Tax collection fund for 2010/11 as set out in Appendix 10.
- xiii) Notes the Medium Term Forecast as set out in Appendix 11.
- xiv) Authorises the Chief Executive and Chief Officers to pursue the development of the options for efficiencies, income and service reductions as set out in Appendix 7 for the financial years 2011/12 and 2012/13 and continue to develop options to close the remaining projected gaps in those years in line with the proposed Efficiency Strategy.
- xv) Approves a further £250,000 in 2009/10 for highway maintenance following the severe weather conditions at the start of this year, to be met from savings in the overall general fund budget in 2009/10.
- xvi) Approves the Efficiency Strategy attached in Appendix 12.

REASONS FOR REPORT RECOMMENDATIONS

1. The Constitution requires the Executive to recommend to Council on the 17th February 2010 its budget proposals for the forthcoming year. The recommendations contained in this report set out the various elements of the budget that need to be considered and addressed by the Cabinet in preparing the final papers that will be forwarded to Council.

CONSULTATION

2. The items for consultation in the 26th October 2009 Cabinet report were presented in order to help facilitate widespread consultation with a range of stakeholders, including members of the public, affected organisations, the business community, staff and Trade Unions, who were all invited to submit comments on the proposals. A number of targeted meetings were held with specific groups, but only a small number of direct responses were received in respect of the proposals. There were particular concerns from community groups about the reduction in the Active Communities team and therefore as a result Cabinet are proposing retaining an additional 0.5 FTE post in this area and this is reflected in the savings proposals in Appendix 7.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- Alternative options for revenue spending form an integral part of the development of the overall Budget Strategy that will be considered at the budget setting meeting on 17th February 2010. Alternative options may be drawn up by opposition groups and presented to the same meeting.

DETAIL

ESTIMATED OUTTURN AND REVISED BUDGET 2009/10

- This report is concerned mainly with the revenue estimates for 2010/11. However, there are elements of the 2009/10 estimated outturn that will have an impact on the overall financial position. The planned draws from balances in the year have been reflected in the balances position shown in this report and take into account the overall financial position highlighted in the Corporate Monitoring report for the nine months ending December 2009.
- The original revenue estimates for 2009/10 assumed a draw from balances of just under £1.9M. After reflecting the revised forecast position from Month 9 and assuming additional expenditure on highways maintenance in the current year, this draw reduces by £250,000 to just over £1.6M as show in Appendix 2. The table below summarises the main changes:

	£M
Net Decrease in Interest Paid	1.500
Contribution to Interest Equalisation Reserve	(1.500)
Reduction in net cost of Benefits	0.750
Increased funding for Highways Maintenance	0.500
Reduction in Draw From Balances	0.250

- Due to the unpredictable nature of forecasting interest rates for the Council's investments, a prudent budget was set for the year. During the first half of the year, the credit crunch resulted in turbulent interest rates on the money markets, but based on investment returns already achieved it is now possible to amend the forecast with a degree of certainty. Due to falling interest rates which have remained at historic lows, the forecast for investment income has been decreased. However, this has been more than offset by a reduction in interest payable achieved through the debt restructuring exercise undertaken at the end of January 2009 and outlined in the Annual Treasury Management Strategy report approved by Council on 18th February 2009.
- In achieving this, the Council has exposed itself to short term variable interest rate risk and whilst in the current climate of low interest rates this is obviously a sound strategy, at some point when the market starts to move the Council will need to act quickly to lock into fixed long term rates which may be at similar levels to the debt it has restructured. Furthermore, the volatility in the financial markets means that interest costs and investment income will continue to fluctuate for some time.

8. It was therefore recommended that an Interest Equalisation Reserve be created from the savings arising from the debt restructure to help to manage volatility in the future and ensure that there is minimal impact on annual budget decisions. Consequently, the £1.5M forecast saving on net interest paid will be added to the Interest Equalisation Reserve.
9. The forecast surplus for net benefits payments has been increased by £750,000 due to the increased income achieved from the improved recovery rate on overpayments. This funding has been used in part to increase the budget for highway maintenance in 2009/10 by £500,000 in order to help address the deterioration in the road network following the severe weather conditions experienced in the early part of the year. Due to the virement limits, a maximum of £250,000 can initially be approved by Cabinet on 1st February, with a recommendation to Full Council on 17th February to approve a further £250,000 for this purpose. Any funds not utilised in the current year will be carried forward into 2010/11.

FORECAST ROLL FORWARD BUDGET 2010/11

10. The Cabinet report on 26th October 2009 identified a roll forward gap of £3.7M before any further revenue developments, pressures or savings were taken into account. However, this figure has now been amended to reflect changes in the overall position since this date, including changes highlighted in the Consultation Report.
11. The final Local Government Finance Settlement for 2010/11 was received on 20th January 2010. The final settlement position was marginally higher compared to that previously anticipated and reported on 26th October 2009 by £38,200.
12. The council tax base for 2010/11 has been set at 66,167, using delegated powers granted by Council on 17th January 2007, which has increased the tax base and leads to additional income of £316,000 over and above that assumed in October.
13. The estimated Collection Fund surplus at the end of 2009/10 was set at £1.0M for the purposes of the Consultation Report for 2010/11. Collection rates during the year have improved and single person discounts have been reduced. The latest estimate of the surplus has consequently increased to £1.142M.
14. The Risk Fund has been reduced by £1.2M. This reflects the reduced contingency for staff pay increases from 2% to 1% in the light of the current economic climate which equates to £1.0M. The Council is anticipating that a 0% pay award will be agreed for 2010/11 but recognises that some contingency provision is required in advance of a final decision. In addition, changes have been made to reflect increased certainty in relation to Concessionary Fares and updated forecasts of the impact of the economic situation on the Council's income and demand for key services which lead to a net reduction of £0.2M.

15. Other changes in the detailed estimates submitted by Portfolios and Trading Areas have also been reflected in the figures and show a favourable variance due mainly to a downward adjustment in the estimate of inflation in relation to Insurance premiums payable by the Council. However, this is more than offset by the adverse impact the dramatic changes in the economic climate have had on anticipated investment income, which is estimated to be lower than originally forecast. The table below shows these net changes in the overall forecast position:

	£000's
Forecast Deficit in October Cabinet Papers (assuming 2.5%)	3,656.5
Improved RSG/NDR Settlement	(38.2)
Improved Council Tax Base	(316.0)
Collection Fund Surplus	(1,141.8)
Reduced Risk Fund	(1,200.0)
Draw From Balances	(1000.0)
Detailed Estimate Changes and Investment Income	435.9
Revised Forecast Deficit	396.4

16. This position shown in the table above represents the 'base' position from which all three political groups may develop their own budgets taking into account the proposals for new spending and savings options put forward by Officers. The specific proposals in this report as set out in the appendices and outlined in the following paragraphs represent the Executive's budget proposals for 2010/11.

INVEST TO SAVE

17. During this year's budget process, services have been asked to put forward efficiency savings, which assume that there will be a reduction in cost, without there being an overall impact on service provision and the Council's performance. For some of these proposals there is up front expenditure that needs to be incurred before the savings can be realised and these are being put forward as Invest to Save Bids although they do not impact until 2011/12.
18. The Invest to Save Bids, listed in Appendix 3, total £45,000 in 2011/12 and will be met from the Invest to Save Fund.

REVENUE PRESSURES

19. Part of the Budget process each year also looks at unavoidable pressures on services that will have a financial impact, many of which are outside of the control of the service itself. Examples of these would be volume changes, which have a direct impact on costs (e.g. increase in waste levels), legislative changes such as new functions and standards, or areas where the current budget simply does not reflect the level of activity within the service.
20. Pressures totalling £1.22M are being recommended for 2010/11 and are detailed in Appendix 4.

REVENUE DEVELOPMENTS AND REVENUE BIDS

21. Each political group also has the opportunity to put forward new proposals for spending as part of the budget process which reflect their priorities for service provision. Spending to fund revenue developments is detailed in Appendix 5 and totals just under £5.9M in 2010/11. Most of these reflect ongoing commitments that were approved as part of the budget in previous years.
22. The majority of the revenue developments are complex and strategic projects around which there are uncertainties in relation to timing and speed of progress. Consequently, the funding for revenue developments is placed into a Revenue Development Fund to enable the Council to retain flexibility in funding. Approval to release this funding, making adjustments between schemes and in the timing as required, is delegated to the Executive Director of Resources following consultation with the Cabinet Member for Resources and Workforce Planning.
23. Services were also invited to put forward a series of bids in order to fund new spending initiatives. These have been kept separate from the pressures identified above since there is an element of choice in deciding whether to proceed or not with these items. The bids have been reviewed and the proposals for new expenditure put forward by the Executive total £0.6M in 2010/11. These are detailed in Appendix 6.

EFFICIENCIES, INCOME AND SERVICE REDUCTIONS

24. For the purposes of considering an overall budget package, it should be noted that the roll forward budget includes 1.7% inflation on fees and charges income and a 3% vacancy factor built in to all salary budgets as well as the ongoing effects of savings identified in previous budget rounds. In addition, no allowance has again been given for increments in 2010/11.
25. The 26th October 2009 Cabinet report set out major items for consultation and at that point, proposals for efficiencies, income generation and service reductions were required to bridge a revised budget gap of just under £9.1M after taking the following action which is now reflected in the base position:
 - Draw of £1.0M from balances.
 - Reduced allowance for staff pay increases from 2% to 1% which equates to a saving of £1.0M.
 - £1.0M Collection Fund surplus from the improved collection of the council tax over recent years.

This level of savings was required to balance the draft budget at an assumed council tax increase of 2.50%.

26. The Executives recommendations for efficiencies, income generation and service reductions now total £8.068M and are set out in detail in Appendix 7.
27. The savings proposals inevitably have an impact on staffing within the City

Council with 119.72 FTE posts affected of which 42.62 are currently vacant and 77.10 are in post. The Council has an excellent past record of using its redeployment policies to minimise any redundancies arising out of the budget proposals and the Executive will ensure that this continues for 2010/11.

28. Those proposals approved when the Full Council sets its budget on 17th February will fall into the classification of 'urgent, unplanned' reductions in employee numbers. Therefore, employees will be notified that they are being placed on the 'Redeployment Register' following Full Council decision on 17th February for a period of three-months. This has resulted in some of the financial savings being reduced in order to take account of the part year costs of redeployment, and any extension to that period would undermine the Councils financial planning process as the balanced budget is based upon this redeployment approach. To be clear, no redeployment period resulting from any proposals approved by the Council on 17th February 2010 can finish later than 30th June 2010.

PROPOSED BUDGET PACKAGE

29. Summarised below is the proposed budget package put forward by the Executive for consideration. The detailed analysis is reflected in the General Fund Revenue Account set out in Appendix 8 and shows the changes from the base position outlined in paragraphs 10 to 16. The proposals are based on a Council Tax increase of 2.50% and include a draw from balances of £1M.

30.

	£M
Total roll forward spending (after use of balances)	183,666.0
Pressures (Appendix 4)	1,220.0
Rev Developments and Bids (Appendices 5 and 6)	6,451.7
Efficiencies, Income and Service Reductions (Appendix 7)	(8,068.1)
Budget requirement	183,296.6

COUNCIL TAX

31. The Budget Requirement shown in Appendix 8 is used to calculate the level of council tax for 2010/11. After taking into account Government Grants and an assumed surplus on the collection fund at the end of 2009/10 of just over £1.1M, the total amount to be met by council tax payers is £81,994.5M. This is then divided by the council tax base set by the Executive Director for Resources in consultation with the Cabinet Member for Resources and Workforce Planning to give the basic amount of council tax for the year of £1,239.21 which is an increase of 2.50%. The full calculation is set out in Appendix 9.
32. The estimates of the payments from the Collection Fund in the form of precepts for 2010/11 are set out in Appendix 10. This includes preliminary figures for the Police and Fire authorities who are proposing council tax increases of 2.91% and 1.79% respectively. The Appendix also shows that

when these items are added to Southampton's council tax, the overall percentage increase falls from 2.50% to 2.51%. These figures will not be confirmed until the budget setting day.

GENERAL FUND BALANCES

33. It is important for Cabinet to consider the position on balances. Balances are used either to:

- support revenue spending,
- support the capital programme, or
- provide a 'working' balance at a minimum level suggested by the CFO with any projected excess being available to fund any one-off expenditure pressures or to reduce the council tax on a one-off basis.

The latter option is not recommended by the CFO.

34. Several years ago, CIPFA issued guidance on a risk based approach to setting an appropriate level of reserves. The CFO at the time produced a calculation for the City which took into account factors such as:

- Exposure to pay and price inflation
- Volatile areas of income generation
- Demand led service expenditure
- Exposure to interest rate variations
- Contractual commitments
- Achievement of budget savings
- VAT partial exemption risk

35. This calculation is updated periodically to reflect current levels of expenditure and income and treasury management operations and also new considerations such as the street lighting PFI scheme. Based on this calculation, the minimum level of balances was increased from £4.0M to £4.5M in line with the good practice guidance several years ago. This level has been reviewed this year and despite new risks around government grant and interest rate exposure, other changes (such as reduced RPI risk and risks around the Capita contract now that we are over two years in) have meant that the minimum level of balances can remain at £4.5M.

36. The table below shows the position for balances after taking into account the outturn for 2008/09, the estimated outturn for 2009/10, the budget proposals set out in this report and the current update of the capital programme.

	2009/10	2010/11	2011/12	2012/13
	£000's	£000's	£000's	£000's
Estimated Opening Balance	15,182.9	10,665.2	6,592.2	5,547.2
Draw from / (to) Revenue	(131.8)	(1,000.0)		
Other Net Contributions	900.0	874.0		
Draw to Support Capital	(1,196.0)	(947.0)		
Draw for Strategic Schemes	(4,089.9)	(3,000.0)	(1,045.0)	(1,045.0)
Closing Balance	10,665.2	6,592.2	5,547.2	4,502.2

MEDIUM TERM FORECAST

37. A roll forward forecast has been estimated for 2011/12 and 2012/13 taking into account the future years effects of the proposed pressures and savings as set out in this report. The forecast is included as Appendix 11. The funding gap will be reviewed and addressed as part of the ongoing development of 3 year budgeting and Members are being asked to authorise the Chief Officers Management Team to pursue the development of future years options highlighted in Appendix 7.
38. Three year grant settlement figures were announced previously the last year of which is 2010/11 and as no figures are available for 2011/12 onwards it is difficult to move any further towards a more robust rolling three year financial plan. This is exacerbated by the economic climate and the inevitable impact this will have in future years on Government spending and local authority funding. The intention remains, however, to produce a high level plan containing longer term objectives that can be pursued outside of the annual budget process and the current forecasts assume a reduction of 3.0% per annum in Government funding for 2011/12 and 2012/13.
39. Appendix 7 also highlights other options for efficiencies, income and service reductions in future years which the Chief Officers Management Team need authorisation to progress. In addition to this work, the Council will continue to build on the initial work with Capita in respect of Transformation in line with a new Efficiency Strategy which is attached at Appendix 12.
40. The aim of the Efficiency Strategy is to ensure a robust and co-ordinated approach to determining the programme of change which will deliver fundamental changes in the ways the Council works, supporting its vision to become more customer focused by delivering services more efficiently using high quality data to make better decisions. The primary objective of the programme is to reduce complexity and costs through focus on customer outcomes, simplification and standardisation.

41. The strategy supports the systematic organisational review of functions, systems and processes. In doing so it also supports the Council's "Value for Money" assessment in the Use of Resources element of the Corporate Area Assessment, ensuring key efficiency requirements are firmly built into management and governance processes.
42. The Council needs this strategic approach to efficiency in order to achieve long-term sustainable gains and service improvements. The Efficiency Strategy attached as Appendix 12 to this report outlines in particular the governance arrangements which will ensure strong leadership and drive to deliver the annual efficiency programme plan.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

43. The revenue implications of funding the capital programme through supported and unsupported borrowing are reflected in the 2010/11 estimates presented in Appendix 8.

Revenue

44. As set out in the report.

Property

45. None

Other

46. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

47. The Executive has a legal responsibility to recommend a budget to the Council.

Other Legal Implications:

48. Appendix 13 sets out a detailed synopsis of the legal issues associated with budget setting within Local Government and Appendix 14 fulfils the Chief Financial Officers statutory duty under the LGA 2003 for reporting on the robustness of the budget proposals and the adequacy of reserves.

POLICY FRAMEWORK IMPLICATIONS

49. This report sets out the Executive's proposed budget to Council which is being developed in line with the constitution and forms an integral part of budget and policy framework.

SUPPORTING DOCUMENTATION

Appendices

1.	Report on Budget Consultation Process and Outcomes
2.	Revised General Fund Revenue Budget 2009/10
3.	Summary of Invest to Save Bids
4.	Summary of Revenue Pressures
5.	Summary of Revenue Developments
6.	Summary of Revenue Bids
7.	Summary of Efficiencies, Additional Income and Service Reductions
8.	2010/11 General Fund Revenue Account
9.	2010/11 Council Tax Calculation
10.	2010/11 Collection Fund Estimates
11.	Medium Term Financial Forecast
12.	Efficiency Strategy
13.	Statutory Power To Undertake Proposals In The Report
14.	Chief Financial Officers View On The Budget

Documents In Members' Rooms

1.	None
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Background Documents

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	Cabinet report on draft budget proposals 26 th October 2009	
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Background documents available for inspection at:

KEY DECISION? Yes

WARDS/COMMUNITIES AFFECTED:	All
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