

DECISION-MAKER:	CABINET		
SUBJECT:	GENERAL FUND REVENUE BUDGET 2014/15 TO 2016/17		
DATE OF DECISION:	19 NOVEMBER 2013		
REPORT OF:	CABINET MEMBER FOR RESOURCES		
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STATEMENT OF CONFIDENTIALITY
N/A

BRIEF SUMMARY

This report summarises the current budget position and outlines the initial draft budget and council tax proposals of the Executive for 2014/15 which will be used as the basis for extensive consultation with a range of stakeholders over the coming months.

The results of the consultation exercise will be reported alongside the Executive's final budget proposals that will be presented to Cabinet in early February and recommended to Council on 12 February 2014.

The report deals with general fund revenue services only and there is a separate timetable and consultation process for the Housing Revenue Account which deals with services to council tenants. Proposals for capital expenditure will be presented early in the new year.

RECOMMENDATIONS:

- (i) Note the pre budget consultation on the Council's priorities that has already taken place in the form of the "Your City Your Say" and the results, which are summarised in paragraphs 16 to 22 and set out in more detail in Appendix 1 (Section A).
- (ii) Note the formal consultation on the Executive's draft budget proposals commenced on 11 November, and note the consultation proposals and methodology set out in paragraphs 4 to 11 and Appendix 1 (Section B) of this report.
- (iii) Approve that delegated authority be given to the Assistant Chief Executive, following consultation with the Cabinet Member for Resources, to fine tune and implement the consultation proposals and methodology.
- (iv) Note the high level forecast for the General Fund for 2014/15 and the underlying assumptions contained in Appendix 2.

- (v) Note the pressures which have been included in the forecast and which are set out in Appendix 3.
- (vi) Note the Executive's initial savings proposals put forward for consultation in Appendix 4 which total more than £13.5M.
- (vii) Note that the Executive's initial savings set out in Appendix 4 propose the deletion of 50.25 Full Time Equivalent (FTE) posts, of which 22.10 FTE are vacant, leaving 28.15 FTE at risk of redundancy.
- (viii) Note that the Executive's budget proposals for consultation are based on the assumption that they will recommend a Council Tax increase of 2.0% to Full Council.
- (ix) Note the medium term financial forecast for 2014/15 to 2016/17 contained in Appendix 5.
- (x) Approve the updated budget setting timetable contained in Appendix 6.
- (xi) Note the Executive's proposals to implement a revised Pay & Allowances Framework
- (xii) Note the commencement of formal consultation with the recognised Trade Unions and employees in relation to the proposals to implement a new Pay & Allowances Framework which began on 11 November 2013.
- (xiii) Note the intention to commence a number of service reviews across the Council, to aid the formulation of proposals for future service provision to support the Council's medium term budget position
- (xiv) Delegate authority to the Chief Financial Officer (CFO), following consultation with the Cabinet Member for Resources, to do anything necessary to give effect to the proposals contained in this report.

REASONS FOR REPORT RECOMMENDATIONS

1. The production of a financial forecast and an outline timetable are a requirement of the Council's Budget and Policy Framework Procedure Rules.
2. In addition, it is good practice for the Council to consult with a range of stakeholders on its proposals for developing the budget. The recommendations in this report have therefore been put forward to allow this process to formally begin.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. The proposals presented in this report represent the Executive's draft budget for 2014/15 that is being published for consultation. Clearly there are a huge number of variables and alternative options that could be implemented as part of the budget. The budget will be set by Full Council in February 2014.

DETAIL (Including consultation carried out)

BUDGET CONSULTATION

4. Where new proposals have been put forward these have been subject to consultation with the Council Management Team (CMT) and relevant Cabinet Members.
5. The Executive will undertake an extensive consultation process on their initial draft budget proposals between 11 November 2013 and the 12 February 2014; the date on which Full Council will meet to set the budget. However, whilst consultation will continue until the 12 February, the Executive would encourage as much feedback from the consultation as possible to be made by the 10 January 2014, to allow the Executive to take account of the feedback prior to the publication of their final budget proposals. The Leader and the Cabinet are keen to listen to new ideas on how to reduce costs and to receive feedback on the potential impact of the proposals to help to finalise the Executive's budget to be recommended to Full Council in February 2014.
6. The consultation process has taken into consideration the feedback from last year. A new feature this year is that all consultation activity will be supported by an easy to read background to the Council's budget position and the pressures it faces, as well as an easy to read, condensed report highlighting the key points. In addition, improvements have been made to the consultation process for the 2014/15 budget proposals in light of the feedback received on last year's consultation process. Full details of the consultation process are contained in Appendix 1 (Section B).
7. Consultation will be undertaken with Trades Unions and staff affected by the proposals in line with the agreed HR policies.
8. Full consultation will be undertaken with any people or organisations affected by the proposals to ensure all options have been considered.
9. Appendix 1 (Section B) will be used as the key consultation document and outlines the process, including the methods of consultation that will be employed.
10. Concurrent with the budget consultation, the Executive also commenced statutory consultation on the 11 November on their proposals for implementing a revised Pay & Allowances Framework, and further details are set out in paragraphs 88 to 95.
11. As the budget proposals, when taken together with other staffing proposals set out in the Section 188 document, which is included as Appendix 7 to this report, may mean that more than 100 individuals are at potential risk of redundancy, a minimum 45 day statutory consultation period is required. The consultation commenced on 11 November 2013 and will continue until 12 February 2014 for the main budget proposals, a period in excess of the minimum requirement.

BACKGROUND

12. The Comprehensive Spending Review (CSR) 2010 set out the Government's plans to eliminate the structural deficit by the end of the current parliament and bring down the ratio of public sector debt to Gross Domestic Product (GDP). This presented a significant financial challenge to the Council which was without precedent in recent times. Headline figures within the CSR 2010 assumed a 28% reduction in local government spending over the four year period but the distribution of the reductions has meant that the Council has experienced reductions in the region of 35% during the period from 2011/12 to 2014/15.
13. The City Council is required by law to ensure that residents benefit from a wide range of local services and to set a balanced budget each year, albeit against a backdrop of limited resources, greater demand for services and higher expectations from stakeholders on the range and quality of services provided within the City.
14. At this stage in the process the draft budget does not yet represent a balanced financial position but work will continue to develop further proposals in the coming months. The initial proposals in this report are put forward by the Executive as a draft budget that aims to take account of the priorities of the Executive, and in the context of the challenging financial environment in which the Council finds itself, allocate limited resources to priority areas of need and ensure key services are protected.

THE EXECUTIVE'S PRIORITIES

15. The Council is funded by a combination of grants from central Government, council tax, business rates and charges for services. The economic downturn has led to significant reductions in the funding we receive from central Government. At the same time, there has been increased demand for some of our most important services, including those to protect vulnerable children and adults. We have been proactive, recognising that we need to radically change the way we work, so that we can continue to deliver high quality services with less funding in the future.
16. Budget setting is about allocation of resources to priority areas and in making difficult decisions the Council will have to focus on what is most important for the City. In making these decisions, the Cabinet were keen to hear what residents had to say to inform its priorities.
17. This is the first time we carried out a pre-budget priorities survey and the aims were to identify resident priorities, inform priority setting and budget decision making and to help residents and staff understand the difficult choices we have to make. The Executive have considered the feedback in developing their draft budget proposals for 2014/15 and in addition, propose to use the feedback to:
 - revise the Council Plan next year, to be considered by Full Council in July 2014, and
 - make improvements throughout the year.

18. Southampton City Council conducted a pre-budget priorities survey, (“Your City Your Say”), from 3 to 18 October 2013 and was extended for staff to 23 October. The survey was the first part of the Council’s budget consultation process and was undertaken to gather residents’ views on the Council’s priorities and to help inform the initial draft budget proposals. It has attracted interest from other councils who are keen to use this approach. This is the first step of an ongoing consultation process with residents, which will take place in the future on a number of issues. The aim is to set up a Residents Panel to form part of a range of measures to seek the views of citizens and other stakeholders on an ongoing basis. Details of the survey and analysis of the feedback are attached at Appendix 1 (Section A).
19. Part two of the Council’s budget consultation process will commence on 11 November 2013, when the Executive’s draft budget proposals are published, with the survey on the draft budget proposals being launched on 19 November 2013.
20. The key points to highlight from the pre-budget consultation are:
 - 2,617 people responded to this survey and this was more than responses to previous budget consultation processes. Whilst this is around 1% of the population, it still provides a very useful measure for residents feedback.
 - 28% of responses were from council employees
 - There was broad agreement reflected in the responses from residents and staff on the priorities for the Council.
 - The question on the introduction of a late night levy resulted in the highest level of overall agreement, with 91% of all respondents in favour of imposing the levy on licensed premises.
 - While it is recognised that there is limited flexibility for the Council to vary charges for some services, the feedback showed that there was most agreement for increased charges in licensing, room hire in Council buildings and planning and lowest support for increasing charges for adult social care services and facilities and activities for young people.
 - 599 respondents expressed an interest in joining a Residents Panel
21. In developing the draft budget proposals, the Executive have taken into consideration the feedback by:
 - Protecting areas within the top priorities, (which were creating more jobs for local people, ensuring early help and support to keep vulnerable children safe and helping older people to be independent for longer and delaying the need for long term care services). This is reflected in the draft proposals through:
 - Protecting children's safeguarding to help managers to redesign the services and reduce historic over spends. Therefore, there are no proposed service reductions or job losses through this budget process in children’s services.

- Redesigning adult services to improve outcomes to keep people independent for longer, reflecting the higher priority given to this in the feedback.
 - Building on the transfer of the public health function to develop and embed early help and prevention services.
 - Supporting the creation of jobs and developing skills and, unrelated to these budget proposals, we are working with others to bring in investment and jobs, (for example, leading on skills for City Deal and increasing apprenticeships).
- Minimising the impact on front line services. Over £10 M of the proposed savings will be delivered through efficiencies and, along with the renegotiation of the Capita contract and proposals to generate additional income, currently only £1.7M of service reductions are proposed.
 - Reflecting the importance of roads in the feedback, no reductions are proposed to the level of investment in roads resurfacing.
 - Proposals to review reduce or stop services are in areas identified as neutral or lower priorities.
22. In many cases, the priorities of the Executive will be delivered through the budget by maintaining a level of financial support to existing services.
23. The scale of the challenge the Council is facing means that whilst the Executive want to encourage genuine feedback on their proposals, and seek ideas for alternative achievable savings, expectations have to be managed. This is because decisions to protect one service will inevitably have a negative impact on another service. The approach in the long term will be to raise awareness so that consultation is about prioritising within ever decreasing resources.
24. As well as ensuring that resources are allocated to identified specific priorities, the Executive has also taken into account high priority services where inflationary and demographic pressures require additional resources to be allocated next year. In particular, funding has been allocated within the Risk Fund in relation to children's and adults social care budgets in order to deal with increasing numbers of children being placed under the care of the local authority, an increasing elderly population and an increasing number of adults with learning disabilities that require more care for longer periods. Funding has also been built into the budget to provide additional resources for children in care and additional safeguarding staff and meet budget pressures already in the system.
25. We are positive about the future. Our ambition is to be a modern business providing public services which means doing things more efficiently and providing high quality responsive services that meet the needs of our customers and improve the quality of life for the residents of Southampton. By 2017 the Council will be a very different organisation, but we are confident that it will continue to provide some of the best public services in the country.

COMPREHENSIVE SPENDING REVIEW ASSUMPTIONS

26. The Comprehensive Spending review (CSR) was for the four year period 2011//12 to 2014/15 and in December 2012 the provisional settlement set out funding for local government for the final two year period of the CSR; (2013/14 and 2014/15). This settlement reflected the changes resulting from the Local Government Resource Review into the way that local government is financed. Whilst the settlement announcement gave a degree of certainty, the changes, which included a system of locally retained business rate income, introduce significant new risks.
27. The next CSR period starts in 2015 and will contain another round of significant cuts to Local Authority funding, and CSR 2013 (the announcement in June 2013) has provided high level funding assumptions for 2015/16 which show a further reduction of central government grant support to local government of circa 15%. Various professional bodies and associations quote the potential loss of grant funding between 25% and 40% over the next three to four years. The exact timings of these further reductions are unknown at present. The potential impact of this for Southampton will form part of the thinking necessary around the sustainable changes that will need to be made in the next few years to ensure the long term viability of service provision.
28. More information is contained in Appendix 2 which provides details of the financial forecasts and the assumptions that have been used in coming up with the overall base position, together with other factors relevant to the overall budgetary position.

SAVINGS PROPOSALS

29. The Executive's initial savings proposals put forward for consultation in Appendix 4 total more than £13.5M. They have been proposed in order that the Council is able to continue to deliver those services, which it considers a priority in the face of unprecedented reductions in local government funding and a difficult economic outlook.
30. The proposals in Appendix 4 contain more than £10.0M of efficiency savings in 2014/15 which may involve the reconfiguration of some services and which rise to £10.2M in future years. These proposals together with income generation ideas totalling £0.3M and savings from the renegotiation and extension of the Capita Strategic Services (SSP) contract of £1.5M will reduce the level of service reductions required which at this stage total just over £1.7M in 2014/15.
31. The report seeking approval from Full Council of a Policy Framework decision, to progress the extension of the SSP contract with Capita for five years, so that its expiry date becomes 30 September 2022 (extended from 30 September 2017), subject to a number of changes to the contract being made simultaneously, will be presented at Council on 20 November 2013. Subject to this decision being approved, Cabinet will then be requested to implement, the extension of the SSP contract by five years on the same day.

32. Furthermore, savings options have also been included in the medium term forecast of £1.3M in 2014/15 relating to the transformational work that is being undertaken within the People Directorate. These proposals were set out in the report approved by Council on 18 September 2013 entitled “People Directorate Transformation”, and identified that up to 38.51FTEs could be at risk of redundancy, as set out further in paragraph 77.
33. Over the next few months, Cabinet Members will continue to explore other ideas for savings and efficiencies that could contribute to the 2014/15 budget position.

SERVICE REVIEWS

34. Given the scale of the financial challenge facing the Council and the desire of the Executive to meet the aspirations of the residents of Southampton, work is underway to develop a Transformation Strategy and Plan covering the medium term which will be presented to Full Council for approval. This will incorporate further strategic reviews. Reviews will be undertaken in many service areas such as Waste, Policy & Performance and Housing Operations. A number of key service reviews are explored in turn below:

Library Service Review

35. Within the next 12 months, the Council will embark on and conclude a comprehensive consultation to consider the future of the library service and how it would best be delivered. The consultation will include proposals that would deliver savings for the year 2015/16 and beyond.
36. The aim of the review will be to ensure that the library service meets the needs and priorities of the residents of Southampton into the future, delivering the required outcomes in a financially sustainable way.

Adult Services Review

37. As set in paragraph 32 above, work is ongoing to transform the People Directorate. As we move forward this will include a review of all elements of adult services to ensure that the services provided by the Council are delivering the outcomes that have been identified as priorities.

Business Support Review

38. Business support is currently delivered independently within each Directorate in the Council, in a silo model. It is an area of service delivery which other local authorities have reviewed and brought together as a single professional discipline, operated in many cases through what is known as a “hub and spoke” delivery model.
39. This is a model that the Executive and CMT are interested in exploring as the Council’s delivery model for business support.

A review has commenced to ascertain whether this delivery model can be implemented within the Council, and is exploring whether this would be a more efficient model of delivery which can be delivered at a lower cost. Given the experience of other local authorities there is evidence to suggest that the “hub and spoke” model could deliver savings of up to 30% in Business Support.

40. Employees covered by this review will be written to and will be consulted on the design principles and final model to be put in place. Formal consultation will commence once the proposals are more advanced.

HIGHWAYS SERVICE - BALFOUR BEATTY CONTRACT

41. The Contract Management Team have been actively working with our partners Balfour Beatty to consider how to both deliver efficiencies and improve the long term performance of the Highways Service.
42. Alongside this work, longer term proposals are being explored which include the option of a five year extension to the contract which may offer potential savings to the Council. This is a detailed piece of work and any proposals will be brought to Cabinet and Council once adequate information is available to inform effective decision making.

COUNCIL TAX

43. The original assumption was for an increase in Council Tax of 2.0% and this assumption has been maintained in light of the current position as set out by the DCLG that a referendum will be required for increases of more than 2.0%.
44. As part of the CSR 2013 provision of a further two years of council tax freeze grant for both 2014/15 and 2015/16 was announced. Based on the announcements to date, the position appears to be that a grant will be payable in 2014/15 and 2015/16 to those Authorities who implement a zero percent increase in Council Tax in 2014/15. The grant receivable will represent additional funding equivalent to increasing Council Tax by 1.0%, which for Southampton City Council is approximately £0.7M.
45. However, based on the level of grant payable in 2014/15 and 2015/16, if the decision was taken to freeze Council Tax and accept the grant this would increase the current budget gap in each of these years by £0.7M due to the difference between the Council Tax income that has been assumed and the level of funding being offered by the Government. This increase in the forecast gap would grow to £1.5M in 2015/16 and beyond when the grant income is likely to be lost.
46. Consequently, the Executive are proposing not to accept the Council Tax freeze grant and increase Council Tax by 2.0% in the light of the ongoing financial challenge that the Council is facing.
47. The Executive is also aware that during the consultation exercise there may be some savings proposals that are not considered to be in the interests of stakeholders.

Where this is the case, then either further savings will need to be found, or other changes in income and expenditure will be required if the proposed Council Tax increase is not to exceed 2.0%.

48. The final Budget and Council Tax that will be put forward by the Executive in early February next year will therefore need to take into account the actual resources available to the Council as well as feedback received from the consultation exercise that will be carried out over the coming months.
49. 2013/14 saw the localisation of Council Tax Support from central to local government. Previously central government set the criteria for Council Tax Benefit and funded 100% of the cost but under the new arrangements, Councils set their own local Council Tax Support scheme offering reduced Council Tax for those eligible. However, the Council receives 10% less from central government to fund the new scheme and there are additional costs in collecting the tax. On 16 January 2013, Council approved a long term scheme which is self funding and to achieve this reduced the support given to working age people by 8.5% in 2013/14, and then by 25% from 1 April 2014. The Executive plan to implement this previously approved 25 % reduction in support from 1 April 2014.

DETAILED FINANCIAL PROPOSALS

50. Appendix 2 to this report sets out the high level financial position for the General Fund for 2014/15 including the provision required in the Risk Fund for possible risks and the unavoidable pressures that have been signed off by the CMT. These pressures are set out in detail in Appendix 3.
51. Appendix 2 shows that after taking into account base changes, inflation, changes in the Risk Fund, revenue pressures and assumptions for Government Grant there is a roll forward gap of more than £16.2M at an assumed increase in Council Tax of 2.0%.
52. In arriving at this 'base' position a number of one off funding sources have already been utilised which total more than £4.2M and without which the gap would have been in excess of £20M. These include contractual savings from the Street Lighting PFI project (£0.2M) and the utilisation of the estimated NHB for 2014/15 (£4.0M). These one off elements, whilst serving to reduce the gap in 2014/15, by their very nature do not positively affect the medium term financial position.
53. This position has been signed off by the CFO and Chief Executive and will effectively be the same for all Political Groups subject to the amount of additional resources they wish to put into specific initiatives and the level of Council Tax rise they wish to set.
54. Appendix 4 sets out the Executive's initial detailed proposals for efficiencies, income and service reductions respectively and it is these proposals that are put forward for consultation with stakeholders. The detailed savings proposals in Appendix 4 total more than £13.5M.
55. The overall current draft budget package therefore put forward by the Executive is shown in the following table:

	£M	£M
Original Gap	20.4	
One Off Funding	(4.2)	
Budget Gap @ 2.0% Council Tax	<hr/>	16.2
Efficiencies	(10.0)	
Income	(0.3)	
Service Reductions	(1.7)	
Capita "Relaunch" Savings	(1.5)	
	<hr/>	(13.5)
People Transformation		(1.3)
Net Deficit		<hr/> 1.4 <hr/>

56. Even allowing for the draft proposals, the Executive's proposed draft budget position does not yet represent a balanced budget.
57. The Council is required to set a legally balanced budget by March 11 2014. It is therefore an imperative that further work is undertaken to identify further options for delivering savings which can be utilised to close the budget shortfall and ensure that a balanced budget can be set.

MEDIUM TERM FINANCIAL FORECAST 2013/14 TO 2015/16

58. It should be noted that even after allowing for the draft budget proposals there remain significant budget shortfalls in the medium term, with a forecast gap currently of £27.7M in 2015/16 rising to a cumulative gap of almost £49.5M in 2016/17. Significant further work is required to ensure that savings can be delivered to balance the budget for these future years. The budget for future years does not need to represent a balanced position by the time that Full Council set the 2014/15 budget on 12 February 2014, but Members should not lose sight of the need to ensure that work is ongoing to develop savings proposals for future years.
59. The medium term financial position is shown in Appendix 5 and illustrates both the financial challenge facing the Council in the coming years and also the impact of the draft budget proposals contained in this report.

STATEMENT ON GENERAL FUND BUDGET STRATEGY BY THE CFO

60. Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for "*the proper administration of their financial affairs*" and appoint a CFO to have responsibility for those affairs.

The CFO must exercise a professional responsibility to intervene in spending plans in order to maintain the balance of resources so that the authority remains in sound financial health.

61. Section 25 of the Local Government Act 2003 imposes a specific duty on the CFO to report formally to Council at the time that the budget is considered and the Council Tax is set on the robustness of the budget estimates and the adequacy of financial reserves.
62. In advance of the report to Cabinet and Council in February 2014 it is important to set the whole of the 2014/15 budget process in the context of the exceptional financial circumstances that Local Government finds itself.
63. Given the continuing uncertainties of the economic environment and the scale of expenditure reductions required year on year, there will inevitably be significant risks involved in delivering a balanced budget. Whilst considerable pressure exists on the Council's budget because of the severely reduced level of resources available for local authorities in the future, further advanced forward planning to deliver the future year's budget savings is in preparation and is absolutely essential.
64. Whilst therefore the basic methodology for putting the budget together has not changed, it must be recognised that the scale of the changes and some of the measures which are proposed do increase the risk built into the budget for 2014/15 and beyond.
65. The level of one off funding already included in the 'base position' totals more than £4.2M, (as set out in paragraph 52), and is effectively contributing in excess of 20% of the savings required to close the gap and balance the budget position in 2014/15. In 2013/14 the level of one off funding included in the 'base position' was almost £6.1M, which was more than 25% of the savings required to close the gap and balance the budget position in 2013/14. This is clearly not a sustainable position. Whilst the Council's reserves are above the minimum level recommended by the CFO this must be viewed in the light of the size of the financial gap in the medium term. Given the ever tightening financial position, the increasing pressures on spend (in particular in social care) and the significant savings to be made in future years, it is difficult to foresee that significant sums of one-off funding will be available in future years to consistently support the budget position.
66. Consideration of the utilisation of balances will be undertaken and will involve an assessment of both the risks the Council is facing and the position across the medium term planning horizon as set out in paragraphs 58 to 59, and as set out in Appendix 2. In view of the financial challenge facing the Authority, the Council must not lose sight of the need to ensure that work is ongoing to develop sustainable savings proposals for future years and must be mindful of the need to carefully consider the extent to which one off funding is utilised in order to deliver a balanced budget in any one year.
67. In February 2014 Council is required to have regard to the report provided by the CFO under Section 25 in approving the budget and the Council Tax and at that time an assessment of the final proposals will be set out to inform decision making.

EQUALITY AND SAFETY IMPACT ASSESSMENT

68. The Equality Duty is a duty on public bodies which came into force on 5 April 2011 and requires the Council to show that it has 'had regard' to the impact of its decisions on its equality duties and the need to advance equality of opportunity between people who have protected characteristics and those who do not.
69. While the Equality Duty does not impose a legal requirement to conduct an Equality Impact Assessment, it does require public bodies to show how they considered the Equality Duty and that they have been consciously thinking about the aims of the Equality Duty as part of the process of decision-making. To comply with these requirements as well as the Community Safety legislation, the Council has used its existing Impact Assessment framework so that it can ensure the use of a consistent, council wide mechanism to evidence how decision making took into account equality and safety considerations. In addition, in light of the potential impact of the welfare reforms on some residents, the assessments also take into account the impact on poverty.
70. Draft individual Equality and Safety Impact Assessments (ESIAs) have been completed by Directors and Heads of Service for those proposals contained in Appendix 4 that they identified require such an assessment, as they could have an adverse impact on a particular group or individuals. The draft individual ESIAs are available in Members' Rooms.
71. The individual ESIAs have been analysed to consider the cumulative impacts the draft budget proposals may have on particular groups and the mitigating actions that could be considered. In order to give the right perspective to the draft budget proposals, the Cumulative Impact Assessments have to be considered in light of the available information on the City's profile, service user and non-user information and staffing profiles as well as the proportion of the council's budget that is currently spent on targeted groups or communities. The first draft of the Cumulative Impact Assessment has been completed by a central team of officers within the council, based on the initial ESIAs completed by service managers. This was published alongside the Executive's draft budget proposals on 11 November 2013 and further details are available in Members' Rooms.
72. It is important to highlight that the draft Cumulative Impact Assessment is not as comprehensive as in previous years because:
- A high percentage of the proposals are efficiencies and hence do not have any disproportionate impact for people, within the equalities legislation.
 - A large proportion of the budget proposals for 2014/15 affect mainstream, universal or back office services by delivering efficiencies, service reductions, generating additional income and use of new funding streams. Mitigating actions include re-shaping services to target them more efficiently to reduce the potential of disproportionate impact on equalities groups and community safety.

- ESIA's will be completed for any proposed reviews as part of each review process and will be made available when they are ready.
- Feedback from service users last year was that the Council should work with them to consider the potential impact of proposals when developing ESIA's. Hence, the draft ESIA's will enable service managers to work with service users to ensure that their views are reflected in the final version to be published.
- Potentially the most significant impacts relate to proposals for adult social care which are part of the council's Transformation Programme. The service design for adults aims to help people remain independent for a longer period and improve outcomes. While there may be issues associated with getting used to changes, new services and new ways of accessing services, they are designed to have potentially positive outcomes.

STAFFING IMPLICATIONS

73. The City Council employs more than 3,900 of non school employees of which approximately 3,050 are funded by the General Fund, and staffing costs constitute a significant element of overall expenditure. Given that this is the case, it is inevitable that when the Council is faced with such a significant funding shortfall, the savings proposals put forward, (as set out in Appendix 4), will have an impact on staff cost and staff numbers.
74. Aware of this fact, the Council has continued to have in place a carefully planned approach to recruitment, ensuring that vacant posts have only been recruited to where absolutely necessary.
75. This proactive approach has meant that the Council has been able to hold a reasonable number of posts vacant which can now be deleted in order to make savings as part of the budget process. The deletion of vacant posts reduces the impact on staff in post and reduces the actual number of employees who will be made redundant.
76. Based on the current savings proposals put forward by the Executive it is anticipated that, subject to the outcome of the consultation process, up to 28.15 FTE posts are at risk of being redundant and up to 36 individuals are impacted.
77. This is in addition to the proposed reductions set out in the report approved on 18 September 2013 to progress the People Directorate Transformation. The streamlining within Adult Services to focus on independence rather than dependence will improve access and outcomes for service users. There will be a change in roles for staff and a reduction of posts. Although work is ongoing to understand the impact, as currently some of these posts are filled by agency staff or held as vacancies, there will be some redundancies. Presently the savings proposals being brought forward for consultation anticipate a maximum reduction of 38.51 FTE (of which 20.64 FTE are currently vacant). Within Children's Services staffing reductions proposed in the same report are anticipated to equate to a reduction of up to 5.0 FTE.

78. Through the consultation process the Executive is keen to explore all avenues with the Trade Unions and staff to identify wherever possible alternative options for delivering savings, in order that the level of proposed staffing reductions and redundancies can be reduced.
79. The Executive will also continue to ensure that impacted staff are aware of all the available options which can be used to avoid compulsory redundancies and this will include:
- Early retirement,
 - Flexible retirement,
 - Voluntary redundancy and
 - Reduced hours
80. In addition, the City Council has an excellent past record of using its redeployment policies to minimise any compulsory redundancies arising out of the budget proposals and the Executive will seek to strengthen the support for employees who find themselves on the redeployment register as a result of savings implemented as part of the 2014/15 budget.
81. Moving forward, the Executive remain committed to minimising job losses within the Council, and in the previous budget round successfully utilised the Southampton Transitional Employment Project (STEP). STEP provides a holistic approach to the retention, redeployment and recruitment of staff and the use of agency and temporary staff. The ongoing purpose of this approach is to utilise measures for staff that are displaced in the organisation by ensuring that they are given priority when vacancies arise and by providing an enhanced level of training, assistance and other options.

2013/14 IN YEAR ACTION

82. In view of the difficult financial picture that is known for the medium term and which has been exacerbated as a result of the further announcements made over the Summer as a result of the CSR 2013, it is vital that further remedial action is taken in year. Plans have been developed, the financial impact of which will be monitored.
83. There is already in place a rigorous process for all requests to fill vacant posts prior to external recruitment. The need to adopt a very challenging approach to all recruitment has been reiterated by the Chief Executive in a recent communication to all Managers, which effectively puts in place a recruitment freeze for all but the most essential vacant posts.
84. In addition, it was agreed by CMT and Cabinet to put in place a spend moratorium on non essential expenditure for the remainder of 2013/14. This was agreed in order to ensure that the support which can be given to the challenging financial position the Council faces in both 2013/14 and future years can be maximised and was again specifically communicated by the Chief Executive to all Managers.

NEXT STEPS

85. This report and the proposals contained in it represents an important step in the overall budget setting timetable for 2014/15 and signals the start of an extensive consultation programme as outlined earlier in the report.
86. The remainder of the budget timetable from this point forward is detailed in Appendix 6.
87. Further proposals for the budget will continue to be developed and will be prepared for presentation to Cabinet and then full Council in February next year.

PAY & ALLOWANCES REVIEW

88. The Council is committed to having a system of pay and allowances which is fair, transparent and efficient. In order to make the system fair it should be a unitary system allowing all jobs in the Council to be set in one system. In addition, fairness should deliver a Living Wage to the lowest paid. Multiple local agreements, some of which have been agreed; have made the system complex and opaque. Any allowances should be simple to administer and equal across the Council. Finally, there are multiple payrolls, pay dates and systems. This is inefficient and wasteful. There are a suite of changes to policies and the way in which the Council approaches evaluation that will enable the Council to have consistent, efficient, flexible policies capable of embracing the changes that the Council faces.
89. The Council can reduce the number of future redundancies, mitigate their effect and prevent dismissals by addressing pay and allowances.
90. The Council has launched a consultation process across the Council in respect of pay and allowances and corporate change proposals. It is proposed to introduce changes under the following headings:
 - Any modern organisation should have one unitary pay scheme where appropriate based on consistent and the same objective system of evaluation throughout the organisation. There is a commitment to the Living Wage for those who are least well paid.
 - The system of allowances should be fair, transparent and consistent throughout the Council.
 - Payroll simplification - There are multiple payrolls paying at multiple dates on different systems. As part of the process of making payroll management efficient it is proposed that the dates and periods of payment are harmonised.
 - Policies should be efficient, fit for purpose, and capable of being changed to confront changing situations whilst still delivering fairness to employees.
91. On 11 November 2013, concurrently with, but unrelated to budget or other savings proposals, the Council started a period of consultation with a view to reaching an agreement on ways of avoiding dismissals, reducing the number of dismissals and mitigating the effect of any dismissals.

In addition, this is also the starting point in respect of consultations with individuals. The Council wants to ensure that if a dismissal is required then in each case that the Council acts fairly. It is hoped that the consultation will allow questions, views and comments of employees affected by the proposal to be raised, and allow alternative proposals to be submitted if appropriate.

92. It is not expected nor would it be possible at this stage for the Council to consult with staff about the individual impact that the consultation will eventually have on them. This is partly because the impact will be variable and partly because the consultation process could result in changes to initial proposals as the Council looks to negotiate an agreement. As the majority of staff are likely to be impacted by this collective consultation however, communication is very important. To this end, all staff were given a letter outlining the review on or around the 11 November 2013. This letter set out the consultation process, and also set out that the aim of the consultation is to reach an agreement on a new Pay & Allowance Framework.
93. However, as the nature of the proposals impacts on each employee's contract of employment, the letter also sets out that if a collective agreement is not reached then it is proposed to bring to an end the old contracts of employment and offer immediate re-engagement on new contracts on the new Pay & Allowance Framework. This would result in the dismissal of all employees that had not agreed to the changes but immediate offers of re-engagement for them to do the same job on the new Pay & Allowance Framework
94. The proposals are complex and involved. The period of consultation proposed is far in excess of the statutory time. The Council hopes, if it is at all possible, to reach an agreement with the Unions.
95. Further information is set out in Appendix 7 in the form of the Section 188 Notice.

RESOURCE IMPLICATIONS

Revenue

96. This report is concerned with the revenue forecasts for the General Fund for 2014/15 and beyond

Capital

97. The revenue implications of financing the approved General Fund capital programme are included within the forecasts presented in this report

Property/Other

98. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

INTRODUCTION

99. It is important that Members are fully aware of the full legal implications of the entire budget and Council Tax making process, when they consider any aspect of setting the Council's Budget. Formal and full advice to all Members of the Council protects Members, both in their official and personal capacity, as well as the Council. If Members have received the appropriate professional legal and financial advice and act reasonably, generally the courts will not interfere in their decisions.

GENERAL POSITION

100. The first and overriding legal duty on Members is their fiduciary duty to weigh the needs of service users against the interests of local taxpayers. In planning the budget, Members are under a fiduciary duty to act prudently, responsibly, in a businesslike manner and in their view of what constitutes the best interests of the general body of local taxpayers. In deciding upon expenditure, the Council must fairly hold a balance between recipients of the benefits of services provided by the Council and its local taxpayers. Members should note that their fiduciary duty includes consideration of future local taxpayers as well as present local taxpayers.
101. There is a general requirement in administrative law that a local authority decision must be rational, authorised by law and must take account of all relevant considerations, whilst ignoring any irrelevant ones. It should also be noted that the concept of proportionality, given great emphasis in the Human Rights Act 1998, is also becoming a relevant factor for determining the reasonableness of any decision and should be borne in mind by Members.
102. An authority commits an illegal act if it acts beyond or in abuse of its statutory powers or in breach of its fiduciary duty. It will also act illegally if it fails to take relevant considerations into account or acts in outrageous defiance of reason

OBLIGATION TO MAKE A COUNCIL TAX

103. The legal significance of the Annual Budget derives from the Council's duty under the Local Government Finance Act 1992 (the 1992 Act) to set a balanced budget. This is achieved by calculating the aggregate of:
- i. the expenditure it estimates it will incur in the year in performing its functions in the year (including an allowance for contingencies),
 - ii. the payments it estimates it will make in the year in defraying expenditure already incurred and
 - iii. expenditure it will incur in funding costs before a transfer of funds is made from the Collection Fund and then deducting such sums as will be paid into the General Fund, (i.e. income). Calculations made under this section must be made before 11 March in the preceding financial year.

104. In order to fulfil this duty, the Council must prepare detailed estimates of its expenditure for the coming year and of the resources which will be available to meet this expenditure. Account must be taken of any deficit brought forward from a previous year and the amount needed to cover contingencies. The resources include income from rents, fees and charges and any available balances. All of these issues must be addressed in the budget report. The estimation of the detailed resource and expenditure items is the main reason for the budget process. The budget must balance, i.e. proposed expenditure must be met from proposed income from all sources, with any shortfall being the precept on the Collection Fund.
105. Failure to make a lawful Council Tax on or before 11 March could have serious financial results for the Council and make the Council vulnerable to an Order from the Courts requiring it to make a Council Tax.
106. Section 151 of the Local Government Act 1972 places a general duty on local authorities to make arrangements for 'the proper administration of their financial affairs'.
107. Information must be published and included in the Council Tax demand notice. The Secretary of State has made regulations, which require charging authorities to issue demand notices in a form and with contents prescribed by these regulations.
108. There is also a duty under Section 65 of the 1992 Act to consult persons or bodies appearing to be representative of persons subject to non-domestic rates in each area about proposals for expenditure (including capital expenditure) for each financial year.

DEFICIT BUDGETING

109. A deficit budget, one which does not cover all anticipated expenditure with resources reasonably expected to be available, is unlawful. Any Council Tax which rests on such a budget will be invalid. Councils are constrained to make a Council Tax before all the separate elements, which will constitute available resources or anticipated expenditure, have been identified and quantified fully. Best estimates have to be employed.
110. Where these best estimates include sums for unallocated savings or unidentified expectations of income, extreme care must be taken to ensure that the estimates are reasonable and realistic and do not reflect an unlawful intention to incur a deficit. It might be appropriate at budget setting time to require regular monitoring throughout the financial year of such estimated savings or income. Prompt action to reduce spending must be taken, if at any stage it seems likely that a balance between income and expenditure will not be achieved.

BORROWING

111. The rules and regulations governing a local authority's ability to borrow money were altered significantly by the introduction of the Local Government and Housing Act 1989 and subsequent regulations.

This has now been abolished and replaced by the self regulating Prudential Code.

OTHER RELEVANT LEGISLATION

112. The Local Government Finance Act 1988 (the 1988 Act) created the (now repealed) Community Charge and the current National Non- Domestic Rating regime and deals with grants, funds, capital expenditure and the financial administration of a local authority.
113. Under Section 114 (2) and 114 (3) of the 1988 Act, the Chief Financial Officer is required to make a report, if it appears to him/her that a decision or course of action the Council or an officer has agreed or is about to make is unlawful, or that expenditure is likely to exceed resources available.

THE CONSTITUTIONAL POSITION: LOCAL GOVERNMENT ACT 2000 (THE 2000 ACT)

114. The 2000 Act has had a fundamental effect on the governance of the Council and in particular has resulted in a change to the working arrangements of Council, with the requirement for a Constitution setting out executive (Cabinet) and scrutiny and overview arrangements. The 2000 Act also provides a power for Councils to promote the economic, social and environmental well-being of their areas and develop community strategies. In addition, the 2000 Act establishes an ethical framework.
115. Of particular importance to the Council Tax setting process and Budget Meeting of the Full Council is the Council's Budget and Policy Framework Procedure Rules set out in Part 4 of the City Council's Constitution. These provide a legal framework for the decision making process whereby the Budget of the City Council is determined, and the Council Tax is set. In addition, Members need to be aware that these Rules provide a route whereby the Leader may require the Full Council to reconsider their position if they do not accept the Executive's recommended budget without amendment.
116. In addition, the Constitution contains a range of further material relevant to the setting of the Council Tax and the Budget Setting meeting:
 - i. Article 12 contains guidance on decision making and the law;
 - ii. The Council Procedure Rules in Part 4 regulate the conduct of the Full Council meeting (although traditionally, some of the rules relating to the conduct of the debate are suspended to allow different arrangements during the budget debate);
 - iii. The Members' Code of Conduct must be followed by Members; and
 - iv. The Officer/Member Protocol contains guidance both on pre-budget discussions, but also on how officers and Members should interact with specific guidance about budget preparation issues.

LEGAL STATUS OF POLITICAL PROMISES AND DOCUMENTS

117. It is appropriate for Members to consider their own position as some Members may have expressed support publicly for policies that are not policies of the Council.
118. Political documents do not represent a legal commitment on behalf of the Council. To treat any political document as a legal commitment by the Council would be illegal. Where there is a valid choice before Members, then, at that stage and only at that stage, Members may take political documents into account.
119. All decisions must be taken within the framework of the formal decision making process of the Authority. Members must take into account all relevant matters and disregard all irrelevant ones. Decisions taken at a political meeting, such as a political group meeting, have no status within this process. A Member, who votes in accordance with a group decision which has been reached, having regard to relevant factors and who has addressed their mind independently to those factors and to the decision itself, will be acting within the law.
120. The Courts have also advised on the balancing exercise to be undertaken by a Council when deciding whether to pursue a particular policy:

A local authority must exercise its statutory powers in the public interest and for the purpose of which those powers have been conferred. Political views, as to the weight to be attached to the various relevant considerations and as to what is appropriate in the public interest in the light of those considerations, may properly influence the exercise of a statutory discretion. A decision will not be unlawful merely because some political advantage, such as electoral popularity, is expected to flow from it, so long as the decision is made for a legitimate purpose or purposes. Because at some stage in the evolution of a policy an improper political purpose has been espoused, does not mean that the policy ultimately adopted is necessarily unlawful. However, a political purpose extraneous to the statutory purpose can taint a decision with impropriety. Where there is more than one purpose:-

- a) The decision will generally be lawful provided that the permitted purpose is the true and dominant purpose behind the act. This is so even though some secondary or incidental advantage may be gained for some purpose, which is outside the authority's powers.*
- b) The decision will be invalid if there are two purposes one ultra vires and one intra vires and the ultra vires purpose is a (even if not the) major purpose of the decision. Accordingly a decision substantially influenced by a wish to alter the composition of the electorate would be unlawful.*
- c) Where there is some evidence justifying enquiry, the Court will consider whether an apparently lawful purpose e.g. home ownership is merely a colourable device to conceal an illegitimate purpose e.g. electoral advantage.*

d) Even if those voting for a particular policy at a Council meeting have perfectly proper reasons in mind, the policy can be tainted by the improper motives of others who have taken part in the formulation of that policy although not actually present to vote. As a matter of law it is possible for a corrupt principal to cause a result through an innocent agent.

Other Legal Implications:

121. The financial forecasts contained in this report have been prepared and are submitted as part of the budget process set out in the Council’s Constitution. As part of the review process by CMT, the proposals contained in this report have been checked from a legal viewpoint.

POLICY FRAMEWORK IMPLICATIONS

122. The Medium Term Plan and the Budget are key parts of the Policy Framework of the Council and a Budget and Council Tax for 2014/15 must be proposed by the Executive (Cabinet) for consideration by the Full Council under the Constitution.

KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	ALL
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SUPPORTING DOCUMENTATION

Appendices

1.	Pre Budget Survey and The Budget Consultation Process
2.	General Fund Financial Forecast 2014/15 to 2016/17
3	Service Pressures
4	Executives Proposals for Consultation
5	Medium Term Financial Forecast
6	Updated Budget Timetable 2014/15
7	Section 188 Notice

Documents In Members’ Rooms

1.	Budget Proposals – Draft Equality and Safety Impact Assessments
2.	Budget Proposals – Draft Cumulative Impact Assessment

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out?	Yes/No
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Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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1.	General Fund Revenue Budget 2013/14 to 2015/16 – Approved by Council on 13 February 2013	
2.		