

<b>DECISION-MAKER:</b>	CABINET COUNCIL		
<b>SUBJECT:</b>	GENERAL FUND REVENUE BUDGET 2014/15 TO 2016/17		
<b>DATE OF DECISION:</b>	4 FEBRUARY 2014 12 FEBRUARY 2014		
<b>REPORT OF:</b>	CABINET MEMBER FOR RESOURCES		
<b><u>CONTACT DETAILS</u></b>			
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<b>STATEMENT OF CONFIDENTIALITY</b>
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N/A
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### **BRIEF SUMMARY**

The purpose of this report is to set out the latest estimated overall financial position on the General Fund Revenue Budget for 2014/15 and to outline the main issues that need to be addressed in considering the Cabinet's recommendations to Council on 12 February 2014.

### **RECOMMENDATIONS:**

#### **CABINET**

##### **It is recommended that Cabinet:**

- a) Note the position on the estimated outturn and revised budget for 2013/14 as set out in paragraphs 28 to 43.
- b) Note the position on the forecast roll forward budget for 2014/15 as set out in paragraphs 44 to 72.
- c) Note and approve the arrangements made by the Leader, in accordance with the Local Government Act 2000, for the Cabinet Member for Resources to have responsibility for financial management and budgetary policies and strategies, and that the Cabinet Member for Resources will, in accordance with the Budget & Policy Framework Rules as set out in the Council's Constitution, be authorised to finalise the Executive's proposals in respect of the Budget for 2014/15, in consultation with the Leader, for submission to Full Council on 12 February 2014.

- d) Recommends that Full Council:
- i) Notes the budget consultation process that was followed as outlined in Appendix 1 and notes that this year's process took into consideration feedback from last year on how to improve the process.
  - ii) Notes that the consultation feedback has been taken into consideration by the Cabinet and has informed their final budget proposals.
  - iii) Notes the Equality and Safety Impact Assessment process that was followed as set out in paragraphs 25 to 27 and the details contained in Appendix 2 which reflect the feedback received through the consultation process.
  - iv) Approves the revised estimate for 2013/14 as set out in Appendix 3.
  - v) Accepts grants which total £3.6M (£3.35M from the Cabinet Office and £250,000 from the Department for Work & Pensions) to support unemployed adults and young people into employment as part of the City Deal and approves in accordance with financial procedure rules revenue expenditure for the delivery of the programme over a period of three years.
  - vi) Approves the Council to act as Lead Accountable Body for the administration of the grant funding which totals £3.6M across the Solent LEP area.
  - vii) Delegates authority to the Assistant Chief Executive to undertake such actions necessary to enable the successful delivery of the programme.
  - viii) Notes the position on the forecast roll forward budget for 2014/15 as set out in paragraphs 44 to 72.
  - ix) Approves the revenue pressures and bids as set out in set out in Appendix 4 and 5 respectively.
  - x) Approves the efficiencies, income and service reductions as set out in Appendix 6.
  - xi) Approves the General Fund Revenue Budget as set out in Appendix 7, which assumes a council tax increase of 2.0%.
  - xii) Delegates authority to the Chief Financial Officer 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.
  - xiii) Approves the allocation of up to £500,000 from the Organisational Development Fund which is part of the Strategic Reserve to fund the resourcing requirements to complete the Pay & Allowances Review.
  - xiv) Notes that after taking these items into account, there is an estimated General Fund balance of £6.5M at the end of 2017/18 as detailed in paragraph 106.
  - xv) Delegates authority to the Chief Financial Officer, in consultation with the Director of Corporate Services, to do anything necessary to give effect to the recommendations in this report.

- xvi) Sets the Council Tax Requirement for 2014/15 at £73,472,200.
- xvii) Notes the estimates of precepts on the Council Tax collection fund for 2014/15 as set out in Appendix 9
- xviii) Delegates authority to the Chief Financial Officer to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire Fire and Rescue Authority precept and the Police and Crime Commissioner for Hampshire precept.
- xix) Notes the Medium Term Forecast as set out in Appendix 10.
- 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 6 for the financial years 2015/16 and 2016/17 and continue to develop options to close the remaining projected gaps in those years.

## **COUNCIL**

### **It is recommended that Council:**

- i) Notes the budget consultation process that was followed as outlined in Appendix 1 and notes that this year's process took into consideration feedback from last year on how to improve the process.
- ii) Notes that the consultation feedback has been taken into consideration by the Cabinet and has informed their final budget proposals.
- iii) Notes the Equality and Safety Impact Assessment process that was followed as set out in paragraphs 25 to 27 and the details contained in Appendix 2 which reflect the feedback received through the consultation process.
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- xix) Notes the Medium Term Forecast as set out in Appendix 10.
- 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 6 for the financial years 2015/16 and 2016/17 and continue to develop options to close the remaining projected gaps in those years.

## **REASONS FOR REPORT RECOMMENDATIONS**

1. The Constitution requires the Executive to recommend its budget proposals for the forthcoming year to Full Council. 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.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

2. 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 12 February 2014. Alternative options may be drawn up by opposition groups and presented to the same meeting.

## **DETAIL (Including consultation carried out)**

### **CONSULTATION**

#### **Introduction**

3. Southampton City Council's Cabinet published their draft budget proposals for 2014/15 for public consultation on 11 November 2013. The scale of the challenges faced by the Council meant that while the Cabinet wanted to encourage genuine ideas for achievable savings by consulting as widely as possible, they were keen to manage expectations. This is because decisions to protect one service will inevitably have an impact on another service. The Cabinet's approach in the long term is to raise awareness so that consultation is not just about saving a service but about prioritising within ever decreasing resources.
4. The draft budget for 2014/15 was used as the basis for extensive consultation with a range of stakeholders from 11 November 2013. The results of the consultation exercise were reported to the Leader and Cabinet Member for Resources prior to agreement of the Executive's final budget proposals which are now presented to Cabinet and Council.

#### **Consultation Process**

5. When planning for this year's budget consultation process the Council took into consideration the feedback received last year. The key points which related to accessibility of the budget information, engagement with stakeholders and improving the way in which we can better inform decision making, have been taken into consideration in planning for this year's budget consultation process.
6. Southampton City Council conducted a pre-budget survey of its priorities from 3 to 18 October 2013. The survey was Part 1 of the Council's budget consultation process and was undertaken to identify views on priorities so that the feedback could be considered in developing draft budget proposals.
7. Part 2 of the Council's budget consultation process commenced on 11 November 2013 and employed a variety of methods to assist a wide range of people to give their views to inform the final budget which is due to be agreed by Full Council on 12 February 2014. This included a second survey which was published on 19 November 2013. Consultation was split into two broad categories – internal and external. This included residents, service users, employees, Trade Unions, partners, businesses, community and voluntary sector organisations and other stakeholders. This is in addition to the Council's decision making processes which include feedback from the Overview and Scrutiny Management Committee (OSMC). Whilst consultation will continue until the 12 February, the Executive encouraged 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.
8. Part 2 of the consultation process was undertaken to give residents and stakeholders an opportunity to comment on the proposals, identify any potential impacts and provide alternative suggestions. The consultation process was centred on an online survey which was made available to residents, businesses, partners and all council staff.

It was promoted in various ways including using the Council's website, Stay Connected (the Council's email alert system) and through a network of partners and community groups. Paper copies of the tick box and open ended question survey were also placed in the city's libraries, GP surgeries, and in local housing offices and Gateway, the Council's customer contact centre.

9. In addition to the online and paper survey, four area-based budget consultation meetings were held between 18 and 30 November 2013, to which nearly 500 community organisations, based in the west, east and central parts of the city, as well as city-wide organisations were invited. The Council also worked closely with partners and directly affected organisations ensuring they were aware of the proposals, had the opportunity to voice concerns and suggest alternatives.
10. The Leader and Cabinet Member for Resources led the consultation on the budget proposals supported by other Cabinet Members, the Council's Management Team (CMT), Heads of Service and staff in the Transformation and Performance division. This was complemented by service led consultation in areas where the managers considered this to be appropriate and necessary and details are attached at Appendix 1.
11. Comprehensive staff consultation was also undertaken by service managers, led by Human Resources. Guidance was issued to managers so that they had the necessary information to ensure full, meaningful and appropriate external consultation on specific budget proposals in their service areas. Separate guidance for internal staff consultation on specific budget proposals was also provided by Human Resources.
12. Given that the Council cannot afford to continue to do everything that it currently does, the consultation process was designed for Cabinet and senior managers to hear views about:
  - The Council's approach to delivering savings
  - Suggestions for making savings and generating income that we have not yet considered.
  - Potential impacts and action we could take to reduce impacts that we have not already identified or explored.
  - Different ways the Council could deliver services such as working with others, including partner organisations and local communities.

### **Consultation Feedback**

13. The Cabinet agreed that despite having limited resources to undertake consultation every effort would be made to ensure the consultation was inclusive, informative, understandable, appropriate, meaningful and reported.
14. To date, for the 2014/15 budget consultation more than 3,600 responses have been received and this includes a number of responses which have been made on behalf of individual organisations and their members and service users.
15. This compares with 478 responses for the 2012/13 budget proposals and 2,783 responses for the 2013/14 budget proposals of which around 1,800 were specifically about proposals relating to libraries. This year's greater response, compared to previous years, reflects the result of the 2 stage consultation process and more accessible information deployed.

16. The Cabinet have considered and reviewed proposals in response to the consultation feedback. The Council received its draft funding settlement from the Government for 2014/15 and 2015/16 just before Christmas 2013. Initial analysis of this and the anticipated impact of income levels from Business Rates confirm that the future financial forecast position continues to be extremely challenging. Changes to proposals have been considered in this context with a view to mitigating the greatest impacts whilst considering how best longer term and more sustainable solutions can be delivered.

### **Issues Raised**

17. The Cabinet's approach in developing the budget proposals was:
- Protecting frontline services, priority areas and vulnerable people.
  - Increasing our income and attracting investment.
  - Being as efficient as possible.
  - Focusing service reductions on services which are lower priority where possible.
  - Deleting vacancies and protecting jobs.
  - Transforming the way we work to provide better outcomes and services at lower cost.

Overall, this approach was supported, recognising the financial difficulties faced. However, there was a consensus that it remains important to maintain a balance between investment in prevention and managing current demand. The Cabinet have considered and reviewed proposals in response to the consultation.

18. Analysis of the feedback received has identified the following as the most frequently raised priorities, suggestions, responses to specific proposals and issues. In finalising their budget proposals, the Leader and Cabinet Member for Resources have taken into consideration the following areas of concern in relation to the budget proposals:
- The removal of the subsidy for the City Link bus and the affect on its sustainability. The subsidy paid by the Council is the only subsidy that will be removed and the Council has been working with partners (Red Funnel, Hammersons and South West Trains) to ensure the sustainability of the service.
  - Increases in parking charges as a source of revenue. In response to level of concerns expressed by residents and the business community, the Leader has confirmed that parking charges in Southampton will not rise for the next three years.
  - The impact of increasing charges for the museums and galleries education service and the reduction of staff in the Museums and Galleries Education Team. An alternative proposal from staff has been accepted and therefore, the original proposal has now been revised. At this stage it is not anticipated that charges will be substantially increased, however this will be kept under review. We will continue to explore external sources of funding to support free and subsidised sessions.

- The need for a Mayor's car. Contrary to perception, the renegotiation has resulted in an agreement at no cost to the Council. The car will be loaned from Southampton's local Jaguar dealership, HA Fox, free of charge which this year will save the council £6,000 on transportation costs for the Mayor.
- The impact on safety and health of reductions in community safety, enforcement and environmental health, particularly when taken together and in the context of other proposals. This will be considered with the Safe City Partnership, after we have received the recommendations of the Local Government Peer Review, to be conducted at the end of February 2014.
- Reduction in overtime for Town Sergeants. Both staff and respondents to the public consultation were concerned about this proposal and the consequent changes to Civic Centre public opening times. As a result of a proposal put forward by the Town Sergeants, this has now been revised to incorporate the deletion of a vacant post and consequently there will be no impact on the Civic Centre public opening hours.

19. In addition, the Council has progressed the following issues which were raised:

- **Late Night Levy** – In Part 1 of the consultation (priorities survey), 91% of all respondents were in favour of imposing the levy on licensed premises so that they contribute towards the cost of dealing with crime and anti-social behaviour in the night time economy. As a direct result of this feedback, a motion was agreed by Council to begin the process of statutory consultation required prior to Council deciding whether to bring in a Late Night Levy. Consultation on the levy will be undertaken during 2014/15.
- **Number of Councillors** – One of the most popular alternative suggestions for making savings put during both stages of the consultation, related to reducing the number of Councillors representing wards in the City, and the frequency of elections. The Leader has been working with the opposition groups and is establishing a cross party group to review both issues. To implement any changes to wards and or the number of Councillors the Local Government Boundary Commission for England (LGBCE) must conduct a review. The LGBCE is an independent and impartial advisory non-departmental public body. The Council will consider its electoral cycle prior to any boundary review. The LGBCE will be invited to examine the number of wards, ward boundaries and number of Councillors in the City. It is anticipated that the LGBCE review will be completed and make its recommendations towards the end of 2015 with a view to implementing any agreed ward changes as well as any electoral cycle changes through all out elections in 2016. These dates are currently provisional as the timeframe depends upon the LGBCE's workload.

20. Another key suggestion for saving money from residents was to move to a fortnightly waste collection. The Council is currently in receipt of a ring-fenced grant from the government to maintain weekly household waste collections until 2017.



The Council will undertake a review to consider the frequency of household waste and recycling collection that should be in place from 2017.

21. The Overview and Scrutiny Management Committee (OSMC) discussed the budget proposals at their meetings on 14 November 2013 and 12 December 2013. The December meeting focussed on the Health & Adult Social Care Portfolio proposals and members of the Health Overview and Scrutiny Panel (HOSP) were invited to attend for this discussion.
22. The actions recommended by the OSMC at their November 2013 meeting, and the Executive's response are as follows:
  - A. That the Cabinet consider supporting subsidising the Council Tax Reduction scheme (CTRS) for two additional years to delay the impact of the proposed 25% reduction on some of Southampton's residents.
    - *Response from the Cabinet Member for Resources:*  
*As agreed at Council, consideration will be given to this recommendation when all the relevant information has been received from the Government and in particular if specific additional grant is made available for CTRS. (Following the receipt of the provisional Government settlement this recommendation was rejected by the Executive as no transitional arrangements or additional grant were to be continued in 2014/15 with funding from Central Government).*
  - B. That the Cabinet give consideration to commencing the commissioning of additional services now so that the benefits can be realised in the short to medium term.
    - *Response from the Cabinet Member for Resources:*  
*This is part of ongoing work on commissioning.*
  - C. That the OSMC receives updates and reviews on the Transformation Programme at appropriate intervals.
    - *Response from the Cabinet Member for Resources:*  
*Accepted – Updates will be provided on a quarterly basis, commencing January 2014.*
23. The actions recommended by the OSMC at their December 2013 meeting, and the Executive's response are as follows:
  - A. That the Cabinet Member considers inviting members of the HOSP to the Integration for Transformation Workshop.
    - *Response from the Cabinet Member for Health & Adult Social Care:*  
*HOSP members have been invited to the workshop on 17<sup>th</sup> January 2014.*

An additional outcome from the December 2013 meeting was a commitment from the Chair of the HOSP to scrutinise the impacts and outcomes of the Health & Adult Social Care Portfolio budget proposals as part of the 2014/15 HOSP work programme

24. The consultation feedback included information on proposals which have impacts that had not previously been identified. This information is reflected in the Equality and Safety Impact Assessments and in the Cumulative Impact Assessment which are published alongside this report.

## **EQUALITY AND SAFETY IMPACT ASSESSMENTS**

25. 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. While the Equality Duty does not impose a legal requirement to conduct an Equality Impact Assessment (EIA), 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.
26. Individual Equality and Safety Impact Assessments (ESIAs) have been completed by Heads of Service for those proposals contained in Appendix 6 where it is felt that proposed savings could have an adverse impact on a particular group or individuals. The first draft of the Cumulative Impact Assessment was 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 the impact assessments detailed in Appendix 2 reflect the feedback received to date.
27. The feedback from residents, partners, community groups and council employees on the potential impact on equalities groups and mitigating actions has been reviewed. As a result, the following ESIAs have been amended and Heads of Service will be responsible for considering mitigating actions for these:
- Remove funding for City Centre Shuttle Bus:
    - Elderly and disabled customers need transport to get up the steep hill from the station.
    - Poverty impacts of additional costs to users.
    - Potential environmental impacts if current users revert to using their car if charges or lack of an integrated bus service are prohibitive.
  - Reduction in Museum and Gallery Education Team:
    - The budget proposal has been changed to provide more in-house delivery and diminishing use of freelancers. The scope and scale of the programme may reduce slightly, with less capacity to secure external funding. Charges are not expected to increase substantially although this will be kept under review.
    - EIA amended to reflect provision of sensory services.
  - Review above standard cost Residential and Nursing Packages:
    - Highlighted potential impact on other health providers and health services in the city as more patients return to the city for care.
  - Review of accommodation placements for acquired Brain Injury and Learning Disability:

- Highlighted potential impact on other health providers and health services in the city as more patients return to the city for care.
- Review day service provision for older people / Community Options to support reablement:
  - Highlighted how the service supports social isolation and vulnerable people.
  - Quality of care will be monitored.
  - Use of direct payments will give people alternatives.
  - Carer supported through carer assessments

#### **REVISED BUDGET 2013/14**

28. This report is concerned mainly with the revenue estimates for 2014/15. However, there are elements of the 2013/14 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 2013 as far as it is prudent to do so.
29. The revenue budget for 2013/14 currently assumes a general draw will be made from balances to support revenue of almost £1.0M. After reflecting elements of the forecast position from Month 9, the revised budget for 2013/14 which will be approved by Council on 12 February assumes that the net contribution to be made from revenue to balances will increase by £3.0M. The table below summarises the main changes:

	<b>£000's</b>
Levies & Contributions	(40.0)
Net Decrease in Capital Asset Management	1,200.0
Additional Non-Specific Government Grants	1,538.4
Reduction in Risk Fund Provision	301.6
<b>Movement in Contribution (to) / from Revenue</b>	<b><u>3,000.0</u></b>

30. It has been assumed that an element of this may be required to fund potential carry forwards of £0.5M, of which £0.3M have been highlighted as at Month 9, and so the net movement in balances will be £2.5M. Once approved these changes will be reflected in future monitoring information.

#### **Capital Financing Charges**

31. The favourable variance of £1.2M is due to forecast net interest payable being below that originally estimated, because of lower than anticipated borrowing costs, and forecast interest receivable being above that originally anticipated.

32. Investment income for the year is currently forecast to be £0.3M higher than originally estimated. Fixed term deposits to date have achieved an average return of 0.80%, which exceeds the performance indicator of the average 7-day LIBID rate (0.42%), mainly due to the rolling programme of yearly investments restarted in November 2012 which ran for 12 months until October 2013.

### **Non Specific Government Grants**

33. Additional non-specific Government grant income is anticipated resulting in a forecast favourable variance of more than £1.5M. There are three main elements that contribute to this variance:
34. Firstly, the Government has reviewed the deductions made from local authority formula grant allocations for 2012/13 in respect of the funding top sliced for Academies, in order to attempt to better reflect the pattern of Academy provision across the country. As a consequence of this review, a “refund” of £391,400 has been paid to the Council as the amount top sliced from formula grant has been assessed as being bigger than it would have been had the deduction been based on the number of Academies during 2012/13.
35. Secondly, the Youth Justice Board has transferred responsibility to fund the costs of remand to Local Authorities from 1 April 2013 and grant income has been received totalling £137,800 to contribute towards these costs.
36. Finally, the Education Services Grant (ESG – formerly known as Local Authority Central Spend Equivalent Grant - LACSEG) is from 2013/14 allocated between the Council and Academies based largely on pupil numbers and is reviewed on a quarterly basis. This introduces an additional element of volatility and risk as schools transfer to Academy status and this will be exacerbated if the Council is not able to reduce its costs in line with reductions in funding. Therefore, when setting the budget for 2013/14 an extremely prudent view was taken. At this stage, we are forecasting additional net income of £1.0M in the light of experience to date and the known scale of Academy transfers now planned for the year.
37. In addition to this, there have been a small number of grant notifications, which have differed slightly from the initial assumed level of funding.

### **Risk Fund Provision**

38. Potential pressures that may arise during 2013/14 relating to volatile areas of both expenditure and income are being managed through the Risk Fund. A balance of £4.7M remains in the budget, following the allocation of £1.0M to portfolios, to cover these pressures and is taken into account during the year as evidence is provided to substantiate the additional expenditure against the specific items identified.
39. At Month 9, it is estimated that pressures within Portfolios will require the allocation of £3.9M from the Risk Fund. It has been assumed that a further draw of £458,200 may be required in 2013/14 which will result in an overall forecast favourable variance on the Risk Fund of £301,600. The provision made within the Risk Fund has been reviewed as part of the development of the budget for 2014/15 to ensure that a sufficient allocation is included for such pressures in the future.

## **CITY DEAL – ACCEPTANCE OF GRANT FUNDING**

40. In November 2013, Southampton and Portsmouth successfully negotiated a City Deal with Government. The Deal includes a range of measures to support local economic growth, skills and jobs through funding from a number of sources to the local authorities and wider agencies.
41. The Deal included specific funding to deliver programmes to support unemployed adults and young people in Southampton, Portsmouth and the wider Solent area under the lead accountability of Southampton City Council. Grants which total £3.6M (£3.35M from the Cabinet Office and £250,000 from the Department for Work & Pensions) along with up to £3.6M of European funding to support unemployed adults and young people into employment will be received by the Council, subject to acceptance as requested in the recommendations to this report. The detailed delivery plan and spend profile is currently under development, in consultation with local partners and government departments. Funds will be spent on the delivery of pre-employment support for unemployed people, the costs of paid work placements and on-going in-work support once the individuals move into sustained employment. Of the £3.6M of funding recommended for acceptance, £2.9M is for adults and the remainder for youth support.
42. it was agreed that Southampton City Council would be the Lead Accountable Body for this element of the City Deal. This involves receiving the funds, developing and overseeing the delivery of the programme to meet the specified outcomes and quality requirements, and financial administration. The grant is intended to test local approaches, and there is no risk to Southampton City Council of claw-back of funds against contract under performance.
43. Delegation of authority to the Assistant Chief Executive is required to ensure that the programme is effectively developed and managed to meet agreed outcomes, whilst remaining responsive to changing economic, social and policy contexts over a three year period.

## **FORECAST ROLL FORWARD BUDGET 2014/15**

44. The report to Cabinet on 19 November 2013 identified a roll forward gap for 2014/15 of approaching £16.2M after taking account of pressures but before any further initiatives or savings were taken into account. This figure has now been updated to reflect changes in the overall position since this date, including the outcome of the provisional Local Government Finance Settlement and changes highlighted in the Consultation Report. The revised roll forward gap is £14.4M, and the reasons which underpin this revised position are set out below.

### **Provisional Local Government Settlement**

45. The Autumn Statement made by the Chancellor early in December contained a number of key announcements and whilst the impact on the Council's medium term financial position appeared to be limited, experience has shown that the devil is in the detail. The provisional Local Government Settlement was received on 18 December 2013 and provided clarity on the financial impact for 2014/15. The Department for Communities and Local Government (DCLG) also announced an illustrative settlement for 2015/16.

The closing date for responses to DCLG was 15 January 2014 and the final settlement is anticipated in early to mid February.

46. Having now analysed the provisional settlement the key issues are:

- The provisional settlement confirms that councils will continue to face significant spending reductions up to 2016. Central government grant to run local services will fall by 8.5% over the next two years, when including NHS support for social care according to the Local Government Association. However, without including NHS support for social care the reduction is 15.9%.
- As a result of the Autumn Statement there will not be an additional reduction in 2014/15.
- The reduction of the money held back from councils for initiatives such as the New Homes Bonus reverses the position announced in the summer technical consultation on local government finance.
- New Homes Bonus for 2014/15 has been provisionally announced and for the Council is lower than anticipated. However, this is offset by an increase in the amount of Revenue Support Grant due to the decision by the DCLG to lower the amounts held back. The funding forecast for future years New Homes Bonus (2015/16 onwards) has been updated to reflect this but at this stage has not been built into the Council's forecast position due to uncertainty about any possible policy changes in respect of the use of this funding.
- The Government will reimburse local authorities for the cost of the proposed changes to Business Rates set out in the Autumn Statement. The impact of the decision to cap the rise in 2014/15 will be made up for through the payment of a section 31 grant in 2014/15 and future years. The value of this grant to the Council is estimated to be just under £0.5M. Other changes announced that impact the Business Rate income received by local authorities will also be compensated for through a grant payment made under section 31. This will feed through to the overall position on Business Rates which is addressed separately in paragraphs 53 to 64.
- Referendum limits have yet to be announced but based on the "mood music" it is possible that the increase in council tax which is allowable without holding a referendum will be reduced from 2% per annum. The impact of this on decisions about Council Tax is set out in paragraphs 97 to 98 and also in Appendix 12.
- The NHS funding to support social care in 2014/15 is in line with our assumptions. In order to receive our allocation of the additional £200 million of funding announced, which is £924,000, we need to ensure that we have jointly agreed and signed off two year plans for the Better Care Fund, (formerly the 'Integration Transformation Fund'), with our health partners. For 2015/16 the provisional settlement confirms the composition of the Better Care Fund and detail has been set out of the basis of the payment for the performance element of the fund and the capital allocations.

More detail will follow but at this stage we have made no assumptions about additional revenue funding but there is an expectation that the current level of funding transferred (Social Care Transfer funding) is maintained.

- The revenue impact of changes to school and children's services funding have been assessed as neutral, however, confirmation of the level of Education Services Grant (ESG) along with up to date information about anticipated Academy transfers has enabled us to update our estimates for 2014/15 resulting in an increase in anticipated grant of £0.4M.

47. The overall impact on the forecast revenue position is shown in the Table below:

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Settlement Change in Grant Funding	37.5	(725.3)	(679.5)
Change in Forecast ESG	(400.0)		
<b>Net Impact of Grant Changes</b>	<b>(362.5)</b>	<b>(725.3)</b>	<b>(679.5)</b>

48. The final Local Government Finance Settlement has not been received prior to the publication of this report, but any changes resulting from the final settlement will be taken into account if necessary in a revised budget proposal for the Council meeting on 12 February.

#### **Council Tax Base**

49. The council tax base for 2014/15 has been set at 57,044.0 properties using delegated powers granted by Council on 17 January 2007. This is an improvement on the position assumed in November and reflects growth in the tax base and the required adjustments in respect of the Local Council Tax Reduction Scheme for 2014/15. The increased tax base leads to forecast additional income of £639,500.

50. Central Government transferred the responsibility for providing Council Tax Benefits to Local Authorities as from 1 April 2013. Previously Central Government set the criteria for Council Tax Benefits and funded 100% of the cost. Under the new arrangements, Councils set their own local Council Tax Reduction Scheme offering reduced Council Tax for those eligible for support. However, the Council received 10% less from central government to fund the new scheme in 2013/14 and there are additional costs in collecting the tax. On 16 January 2013 Council approved a long term scheme which comes into place from April 2014 and which reduces the support given to working age people by 25%.

#### **Collection Fund Surplus / Deficit**

51. No assumption was made about the estimated Collection Fund position at the end of 2013/14 for the purposes of the original forecast for 2014/15.

For Council Tax, collection rates during the year have been maintained, the bad debt provision has been reduced and there has been a continued review of exemptions and eligibility for discounts. In addition, the Council made changes to a number of discounts and exemptions offered in respect of Council Tax with effect from 1 April 2013; as allowed by new regulations contained in the Local Government Finance Act 2012. Prudent assumptions were made about the impact of these changes and when compared to the original forecast additional income is now anticipated. Due to these factors, the estimate of the surplus to be included is approaching £1.8M and goes some way to offsetting the seriously detrimental impact that the latest forecast in respect of Business Rates has had on the Council's financial position.

52. This is the first year of the new Business Rates Retention Scheme and the estimated position for the year is a deficit of £17.6M of which the Council's share is 49% or £8.6M. However, in January 2013 the Government announced its intention to make regulations allowing the liability for prior year appeals (which are a major factor in the deficit position) to be spread over five years from 2013/14 to 2017/18 – at the point of writing this report these regulations are still awaited. The forecast total provision relating to appeals and refunds relating to prior years (i.e. pre 2013/14) is almost £13.7M. Assuming the regulations allow this funding to be spread and that this is required to be an even profile then the impact to be taken into account when setting the Council Tax for 2014/15 is £4.6M and then £1.3M in future years as follows:

	£000's	£000's
Southampton City Council (49%)		8,647.0
Total Pre 2013/14 Refunds and Provision	13,681.6	
SCC Share (49%)	6,704.0	
Deferral to future years 3/5ths		<u>4,022.4</u>
2013/14 Deficit		<u>4,624.6</u>
Future Years		<u>1,340.8</u>

### **Business Rates**

53. The Business Rate Retention (BRR) Scheme was introduced in April 2013 and represented a major change in the way in which local government is funded. It is seen by the government as providing a direct link between business rates growth and the amount of money local authorities have available to spend on local services. However, the reality is more complex and the new system introduces a high level of risk into the financial position for local authorities without the level of control the government suggests is possible
54. When estimating the income for 2013/14, the NNDR1 (which has been returned for many years) was completed following the accompanying guidance issued by the DCLG. We were mindful of the importance of this return as under the new funding arrangements the estimated level of NNDR income for the coming year had the potential to impact on the Council's budget position.



Going forward Councils will be able to retain a proportion of their growth in business rates and will also be taking the risk for reductions in business rates, although there are 'safety net' arrangements in place to protect against very large reductions

55. The estimate took into account the estimated rateable value of businesses within the City, adjusted for reliefs, transitional relief, appeals and a reduction in rateable value due to the impact of for example the closure of Fords. No assumption was made of any growth.
56. Estimating business rate income is complex, as there are many factors which can significantly affect the overall figure, including entitlement to reliefs and properties coming on to, or being taken off the rating list. The biggest uncertainty concerns revaluations arising from appeals against the Valuation Office (VO) determinations. These are very common and can lead to large refunds being backdated several years
57. The amount to be retained, and the amounts to be paid to central government and major precepting authorities are fixed at the start of the financial year on the basis of the billing authority's estimate of its business rate income for the year. Any variation is recognised as part of the end of year accounting process for the Collection Fund and any surplus can be utilised in the budget whilst any deficit must be made good.
58. Since the NNDR1 was submitted and the budget set for 2013/14 it has become apparent that there are two key issues that will impact our business rate income in 2013/14 which were not fully reflected in the original estimate.
59. The first of these is the provision for appeals which it is now clear needs to be sufficient not just to cover those appeals paid in year but all appeals which might be successful and reduce the rateable value of the local list whether the appeal decisions are in 2013/14 or later years. In addition, a significant allowance needed to be made for appeals prior to 2013/14 even though this related to the period prior to the introduction of the BRR Scheme.
60. The gross level of appeals provided for as part of the original estimate of business rates income was £5.8M and our latest forecast is that this provision needs to be increased by £15.6M primarily due to the need to account for prior years appeals but also due to a review of the likely level of appeals relating to 2013/14 and yet to be decided.
61. The second impact is that the level of appeals and other changes to the ratings list in fact lead to a reduction in the rateable value which far exceeds any realistic level of growth and which impacts not just 2013/14 but future years. The gross rate yield for Southampton has so far fallen by approaching £7.0M from £108.8M when the NNDR1 was submitted in January 2013 to £102.0M by the end of December 2013. These figures will continue to change.
62. In the light of this experience the forecast income from Business Rates for 2014/15 has been reduced by £3.7M after allowing for the receipt of section 31 grants which are to be paid to compensate Local Authorities for the measures set out in the Autumn Statement.

63. The anticipated level of grant the Council will receive under section 31 in respect of the decision to cap the increase in business rates at 2% is £487,000 and the value of the grant to compensate for the other measures announced is forecast to be £1,474,600.
64. The NNDR1 has to be submitted to the DCLG by 31 January each year and, while it is not anticipated, there may be late changes to the form and to the accompanying guidance that will lead to changes to the figures set out in this report. In addition, any changes as a consequence of the laying of regulations associated with the BRR Scheme, including the calculation of safety net payments, may impact the position presented. Any changes will be taken into account if necessary in a revised budget proposal for the Council meeting on 12 February.

#### **Actuarial Assumptions**

65. Employer contributions to the Hampshire Local Government Pension have been reviewed as part of the triennial revaluation process. The outcome of the review undertaken by the Actuary has resulted in rates for both past and future service being set which are lower than previously anticipated for the three year period, 2014/15 to 2015/17. This has had a favourable impact on the forecast for 2014/15 of £752,100.

#### **Detailed Estimates Changes and Net Interest Payable**

66. Other changes in the detailed estimates submitted by Portfolios and Trading Areas have also been reflected in the figures and show a small adverse variance however, this is more than offset by the favourable impact of reduced interest payable. Since November changes have been made to a number of key variables which impact the forecast of net interest payable. These include changes as a result of the Capital Programme update which is to be presented to Council on 12 February, an updated assessment of the outlook for interest rates and an assumption that in year borrowing will be delayed.
67. In addition, review of the planned programme funded by the Weekly Collection Support Scheme (WCSS) bid awarded to the Council by the DCLG last year has resulted in the re-profiling of spend with a corresponding increase in the allocation of funding in 2014/15 of £0.7M.

#### **Increased Draw From Balances**

68. In the light of the financial challenge facing the Council in future years the position presented in November 2014/15 assumed an addition to balances of £3.2M. This was in recognition of the fact that change takes time and investment to deliver and provided the Council with one off resources to allow for this.
69. Since that time the changes set out above, and most notably the impact of business rates, have meant that an additional draw of £5.9M is required to support the revenue position in 2014/15, compared with the balances position resulting from the November draft budget. This in conjunction with the re-profiled spending associated with the WCSS bid means that it is now planned to draw approaching £3.4M from balances (rather than add £3.2M to balances) which is an increase of £6.6M compared to the position reported in the November report.

70. The table below shows these net changes in the overall forecast position:

	<b>£000's</b>
<b>Forecast Deficit in November Cabinet Papers</b>	<b>16,243.2</b>
Net Impact of Provisional Local Government Finance Settlement	(362.5)
Council Tax Base	(639.5)
Collection Fund – Council Tax Surplus	(1,781.9)
– Business Rates Deficit	4,624.6
Reduced Business Rate Forecast	3,662.1
Actuarial Assumptions	(752.1)
Detailed Estimate Changes and Net Interest Payable	(6.5)
Increased Draw from Balances	(6,586.4)
<b>Revised Forecast Deficit</b>	<b>14,401.0</b>

71. In arriving at this 'base' position a number of one off funding sources have been utilised which total almost £6.9M. These include contractual savings from the Street Lighting PFI project (£0.2M), the utilisation of the New Homes Bonus for 2014/15 (£3.3M) and a draw from balances (£3.4M). These one off elements, whilst serving to reduce the gap in 2014/15, by their very nature do not positively impact on the medium term financial position.

72. This position shown in the table above represents the 'base' position from which all four 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 2014/15.

### **RISK BASED CONTINGENCY FUND**

73. In 2008/09 the Council established the Risk Fund as a financial planning mechanism to manage volatile risks within the budget. The Risk Fund includes a number of pressures which are volatile in nature, and which cannot be forecast accurately until data is collected during the financial year on the level of activity and costs (for example increasing numbers of older persons affecting care budgets).

74. The establishment of the Risk Fund means that not all the funding set aside to cover the estimated implications of pressures is allocated to Portfolios prior to the start of the financial year, but is instead retained centrally. The individual items retained within the Risk Fund are also risk adjusted, to reflect the fact that not all the volatile pressures will fully materialise during the year.

75. A sum of £4.4M is included in the budget for 2014/15, (unchanged from the draft position presented to Cabinet in November 2013), to cover these pressures and will only be released during the year if evidence is provided to substantiate the additional expenditure against the specific items identified.

### **REVENUE PRESSURES**

76. 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 contractual changes, which have a direct impact on costs (e.g. increase in service specification), 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.
77. Pressures which services are required to address outside of the Risk Fund mechanism totalling £3,624,000 are being recommended for 2014/15 and are detailed in Appendix 4.

### **REVENUE BIDS**

78. Services are normally invited to put forward a series of bids in order to fund new spending initiatives. Unlike pressures, which are unavoidable, 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 £50,000 in 2014/15. These are detailed in Appendix 5

### **EFFICIENCIES, INCOME AND SERVICE REDUCTIONS**

79. For the purposes of considering an overall budget package, it should be noted that the roll forward budget includes a 3% vacancy factor built in to all salary budgets as well as the ongoing effects of savings identified in previous budget rounds.
80. In arriving at the 'base' position presented in November it was recognised that a number of one off funding sources had been utilised which totalled almost £4.2M. Since that time the level of one off funding has been increased by £2.7M to almost £6.9M and is now effectively contributing approximately a third of the savings required to close the gap and balance the budget position in 2014/15.
81. The November Cabinet report set out draft budget proposals for consultation and at that point included efficiencies, income generation and service reductions to the value of more than £14.8M. This level of savings went most of the way towards bridging the draft budget gap which at that point in time was more than £16.2M. The changes summarised in paragraph 70 reduce this gap to £14.4M, and this is the level of savings therefore required to balance the draft budget for 2014/15 before any bids or initiatives, assuming a council tax increase of 2%.
82. In terms of closing the budget gap and setting a balanced budget, the Executive's recommendations for efficiencies, income generation and service reductions now total almost £14.5M and are set out in detail in Appendix 6.

These savings include £1.5M from the renegotiation of the Strategic Services Partnership contract with Capita which included changes to the contract and an extension of the contract for five years. They also include savings of £920,000 to be delivered through the programme of work to transform the People Directorate.

## **STAFFING IMPLICATIONS**

83. The City Council employs more than 3,900 FTE of non school staff 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, that the savings proposals put forward by the Council will have an impact on staff cost and staff numbers.
84. 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.
85. This proactive approach has meant that the Council has been able to hold a significant 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.
86. Based on the savings proposals contained in this budget report 48.75 FTE posts are affected of which 23.10 FTE are currently vacant and 25.65 FTE are in post and are at risk of redundancy, (up to 33 individuals).
87. In addition to this, the proposed reductions set out in the report approved on 18 September 2013 to progress the People Directorate Transformation have now been refined. Previously work was underway to understand the staffing implications of these proposals as at the time some of these posts were filled by agency staff or held as vacancies,. The savings proposals brought forward for consultation anticipated a maximum reduction of 38.51 FTE (of which 20.64 FTE were vacant) within Adult Services. Within Children's Services staffing reductions proposed in the same report were anticipated to equate to a reduction of up to 5.0 FTE. Following consultation it has now been confirmed that 32.58 FTE posts are affected of which 24.28 FTE are currently vacant and 8.30 FTE are in post and at risk of redundancy, (up to 10 individuals).
88. The overall FTE at risk of redundancy is therefore 33.95 and represents less than 1% of the overall FTEs employed.
89. Through the consultation process the Executive have been 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. The consultation has been extended to 12 February and any changes made after publication of this report will be highlighted to Council on 12 February 2014.
90. 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.

91. 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 maintain the support for employees who find themselves on the redeployment register as a result of savings implemented as part of the 2014/15 budget.

### PROPOSED BUDGET PACKAGE

92. 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 7. The proposals are based on a Council Tax increase of 2% and include a draw from balances of £3.4M.

	<b>£M</b>
<b>Total GF Spending (After Addition to Balances &amp; Pressures)</b>	<b>87,873.2</b>
Bids (Appendix 5)	50.0
Efficiencies, Income and Service Reductions (Appendix 6)	(14,451.0)
<b>Council Tax Requirement</b>	<b>73,472.2</b>

93. Any changes made to this proposed budget package, for example in response to the ongoing consultation with staff which will run until 12 February 2014, or in the light of changes to the proposed referendum limits in respect of council tax increases and regulations relating to business rates, will be highlighted to Full Council on 12 February 2014.

### COUNCIL TAX

94. The Executive are recommending a Council Tax increase of 2.0% for 2014/15. The Council Tax Requirement shown in Appendix 7, which takes into account Government Grants and an assumed deficit on the collection fund at the end of 2013/14 of more than £2.8M is the level of council tax required to provide a balanced budget for 2014/15. This is then divided by the council tax base set by the CFO, following consultation with the Cabinet Member for Resources, to give the basic amount of council tax for the year of £1,287.99, which is a 2% increase. The full calculation is set out in Appendix 8.

95. The estimates of the payments from the Collection Fund in the form of precepts for 2014/15 are set out in Appendix 9.

This includes preliminary figures for the Police & Crime Commissioner (PCC) and the Fire Authority, for whom proposed council tax increases of zero for a Band D property have been assumed at this stage. The Appendix therefore shows that when these items are added to Southampton's council tax, the overall percentage change falls from 2.0% to 1.71%.

96. The figures for both the PCC and the Fire Authority will not be approved until after the 12 February and therefore this report requests a delegation of authority to the Chief Financial Officer to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire Fire and Rescue Authority precept and the Police and Crime Commissioner for Hampshire precept.
97. At the time of writing this report the Government have yet to announce the Council Tax Referendum threshold for the 2014/15 budget year. The current referendum level is set at 2%, but the government have indicated that they are minded to consider representations for a lowering of the present threshold. There is therefore a distinct possibility that the referendum threshold will be lowered, and if this was the case the Administration would have to decide whether to proceed with the current proposed Council Tax increase of 2%, which would trigger a referendum, or to consider a lower Council Tax increase taking account of any revised referendum limit.
98. The government have said that any decision to change the Council Tax threshold will be made no later than the 12 February 2014, which is the date on which Full Council meet to set the budget. It is therefore possible that the referendum limit may not be known until budget day.

## **PAY & ALLOWANCES**

99. As set out in the report to Cabinet in November, a consultation process was launched across the Council on 11 November 2013 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 consistent unitary pay scheme where appropriate based on 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.
100. Pay & Allowance proposals will be subject to a meaningful and detailed consultation and counter proposals will need full consideration.

The intention is to reach a collective agreement which by its definition will cover a wide range of issues. This is the aim, and to take that forward requires proposals (and counter proposals) to be fully assessed and costed. However, whilst the aim is to reach collective agreement this may not be achievable and a process of dismissal and re engagement may be required to achieve the Councils overall objectives of equity fairness affordability and modernisation. Eventual implementation (current aim October 2014) will be a significant undertaking including amending systems and processes and associated comprehensive communications.

101. Based on the latest plan for this review, the required funding to undertake and implement the project is £0.5M and this sum has been allowed for in the Organisational Development reserve and is reflected in the position set out for balances.

### **GENERAL FUND BALANCES**

102. It is important for Cabinet and Council 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.

103. 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

104. This calculation is reviewed annually and updated to reflect current levels of expenditure and income and treasury management operations and also new considerations such as partnership arrangements. This level was reviewed last year and in recognition of the significant new risks facing the Council (in particular the introduction of the BRR Scheme and a local Council Tax Reduction Scheme) the CFO recommended that the minimum level of balances be increased from £5.0M to £5.5M in line with good practice guidance. Further consideration has been given this year as to whether the minimum level of balances should be increased further.



Whilst given the Council's financial position, the level of financial risk and the forecast budget shortfall for 2015/16 onwards it would be prudent to do so, the practicalities of the financial position mean that it has not been possible to provide for an increase in the minimum level of reserves. This is further set out in Appendix 12 – Statement on General Fund Budget Strategy by the CFO.

105. In light of experience during 2013/14 whilst provision for the BRR Scheme has been made within balances it is planned to review how best to manage the risk that this now presents to the Council. Consideration will be given to the use of a Business Rate & Revenue Equalisation Reserve as part of the development of the Medium Term Strategy for future years which could help to manage the impact of economic shocks and unanticipated decisions in respect of appeals, refunds and the composition of the rating list.
106. The table below shows the position for balances after taking into account the estimated outturn for 2013/14, the budget proposals set out in this report and the current update of the capital programme.

	2013/14	2014/15	2015/16	2016/17 & 2017/18
	£000's	£000's	£000's	£000's
<b>Opening Balance</b>	<b>29,923.5</b>	<b>25,673.4</b>	<b>16,970.5</b>	<b>10,908.2</b>
Draw to Support Capital	(401.0)	(100.0)	0.0	0.0
(Draw to Support) / Contribution from Revenue	3,419.9	(3,362.0)	(1,632.2)	4,332.0
Contributions (to) / from Other Reserves	(1,400.0)	0.0	0.0	0.0
Draw for Strategic Schemes	(5,869.0)	(5,240.9)	(4,430.1)	(8,740.2)
<b>Closing Balance</b>	<b>25,673.4</b>	<b>16,970.5</b>	<b>10,908.2</b>	<b>6,500.0</b>

107. The current level of balances reflects the budget proposals set out in this report to be approved by Council on 12 February. These proposals include the use of £3.4M of balances in 2014/15 and £1.6M in 2015/16 to support the revenue budget. The above projection includes an addition to the Organisational Development Reserve of £3.0M in 2014/15, £2.0M in 2016/17 and £4.0M in 2017/18 in order to ensure that adequate ongoing provision is made for the costs associated with the implementation of staff related savings and change.
108. 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.
109. The minimum level of balances is currently set at £5.5M. The above prediction indicates that the new level of minimum balances will be maintained in the medium term.

Presently, approaching £1.0M is forecast to be available within balances as a consequence of the position set out in this report. Given the fact that this is a forecast position it would not be prudent to utilise this amount at this stage of the year. However, any ultimate amount which is available within balances may be used to fund future initiatives, cover future liabilities or contribute to the revenue budget in future years.

## **MEDIUM TERM FORECAST**

110. A roll forward forecast has been estimated for 2015/16 and 2016/17 taking into account the future years effects of the proposed pressures and savings as set out in this report.
111. It should be noted that there remain significant budget shortfalls in the medium term, with a forecast gap currently of £32.7M in 2015/16 rising to a cumulative gap of almost £54.7M in 2016/17. The medium term financial position is shown in Appendix 10 and illustrates the scale of the financial challenge facing the Council in the coming years. The funding gap will be reviewed and addressed as part of the ongoing development of longer term financial planning and Members are being asked to authorise CMT to pursue the development of future years options highlighted in Appendix 6.
112. Whilst 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, Members should not lose sight of the need to ensure that work is ongoing to develop savings proposals for future years. Significant further work is required to ensure that savings can be delivered to balance the budget for these future years. It is imperative that plans are put in place as soon as possible in order that the Council can address the significant budget shortfall for 2015/16 onwards and this will include acceleration of the Council's Transformation Programme as set out in paragraphs 116 to 118.
113. The next CSR period starts in 2015 and is likely to contain another round of significant cuts to Local Authority funding. Various professional bodies and associations quote the potential loss of grant funding between 25% and 40%. 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 which will need to be made in the next few years to ensure the long term viability of service provision.
114. For planning purposes, provision has been made within the current medium term forecast for reduced government grant with an assumption that there will be a further reduction in central government grant of 12% in 2016/17. This reflects a continuation of the deficit reduction programme as announced by the Chancellor in the Autumn Statement and reiterated since. There is a risk that the actual reductions in government grant will be in excess of 12% for 2016/17.
115. The effect on local taxpayers is also a critical element in making decisions on council tax levels, particularly given the legislation for Council Tax referendum contained in the Localism Act. The Localism Act abolishes Whitehall capping in England and puts local referendums in its place.

If councils increase council tax above the level agreed by government, currently set at 2.0% for 2013/14, this will trigger a referendum and if people vote against the increase the local authority will have to revert to a lower council tax rise

## **TRANSFORMATION PROGRAMME AND SERVICE REVIEWS**

116. The draft budget report published in November 2013 highlighted the work that was being done to develop the Council's medium term Transformation Programme incorporating a number of strategic reviews. Following the recommendations of the Local Government Association (LGA) Peer Review, work undertaken to understand and learn from the transformation programmes in other councils shows that there is no "magic bullet" or formula to achieve the level of transformation that is needed. What the council has to do is to inject pace and investment for strands of work identified and started over the last two to three years. The Council's transformation work, led by the Assistant Chief Executive, will need to ensure that the Transformation Programme develops to support the delivery of the Council Plan and makes an identified contribution to future financial pressures, within agreed timescales.
117. Several respondents to the budget consultation process highlighted that there is scope to improve the way the Council communicates and interacts with residents electronically including increasing the number of services that can be accessed and transactions undertaken online. Work is underway to improve the Council's website, increase and make easy transactions that can be undertaken electronically and to improve business processes to ensure channel shift is effective. As not all residents have the skills or access to be able to transact with the council on-line, comprehensive impact assessments will be completed by the Head of Transformation to better understand their needs and views in relation to 'channel shift' and to ensure alternative processes for those who need them.
118. Progress since November includes:
- Work is underway to develop current transformation projects into a coordinated "One Council" Transformation Programme, including culture change, which is effectively programme managed.
  - Project Managers are working on the two inter linked reviews for Business Support and Policy & Performance, reporting to a single Project Board. It has been agreed that the delivery models for the new centralised functions will be "hub and spoke" and approval has been given to establish the high-level structures. Consultation with affected staff is expected to begin in February 2014 as soon as the list of staff in scope has been finalised.
  - The transformation programme within the People Directorate includes establishment of the joint Integrated Commissioning Unit with health to help reduce costs in the future; leaning of processes for assessments and billing within Adult Social Care; establishing integrated education and social care teams and a Multi Agency Safeguarding Hub (MASH) and assessing how IT can support the new roles and ways of working, including mobile and flexible working.

- Officers have been making contact with service managers across the council and with library managers in other councils as part of the preparatory work for the Library Service Review. The aim is 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.
- CMT have agreed HR transformation priorities and priority projects to build organisational resilience and achieve the level of HR transformation that is urgently required. The agreed HR projects will underpin front line service delivery and include simplification of HR policies and processes, implementing a resilient HR operating model, mechanisms to ensure establishment control and integrating individual performance management into the council's performance management framework for 2014/15.
- Work is also underway to establish a Programme Management Office (PMO) with an agreed project management framework, a pool of project managers and ongoing training for relevant staff.

## **RESOURCE IMPLICATIONS**

### **Capital**

119. The revenue implications of financing the General Fund Capital Programme are reflected in the 2014/15 estimates presented in Appendix 7.

### **Revenue**

120. As set out in the report.

### **Property/Other**

121. None.

## **LEGAL IMPLICATIONS**

### **Statutory power to undertake proposals in the report:**

#### **INTRODUCTION**

122. 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**

123. 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.
124. 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.
125. 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**

126. The legal significance of the Annual Budget and setting a Council Tax derives from the Council's duty under the Local Government Finance Act 1992 (the 1992 Act) to set a balanced budget and Part 5 Chapter 1 of the Localism Act 2011. 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.
127. 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.
128. 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.

129. 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'.
130. 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.
131. 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.
132. 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.

### **DEFICIT BUDGETING**

133. 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.
134. 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**

135. 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**

136. 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.
137. Under Section 114 (2) and 114 (3) of the 1988 Act, the CFO 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.
138. Members have a duty to determine whether they agree with the CFO's statutory report issued under Section 26 Local Government Act 2003. If Members were to disagree, they would need to set out cogent reasons for so doing. Unless such reasons could be set forward, Members' action in disagreeing with the CFO's views on the basis of his/her professional judgement would be likely to be held unreasonable and constitute wilful misconduct. It should be noted that under the Members' Code of Conduct, Members are required to take account of any advice issued by CFO (and the Monitoring Officer) acting in their statutory capacities.
139. The Localism Act 2011 contains provisions (Part 5, Chapter 1) which relate to the setting of Council Tax, including the arrangements for Council Tax Referendums.

## **BEST VALUE: LOCAL GOVERNMENT ACT 1999**

140. The Local Government Act 1999 (the 1999 Act) introduced a duty of Best Value, which came into force on 1 April 2000. Members need to be aware of and take account of the impact on the Council of this duty.

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

141. 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.
142. 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.

143. 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
- 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.

### **PERSONAL LIABILITY AND SURCHARGE**

144. The 2000 Act abolished the local government surcharge provisions and replaced them with a new statutory offence of 'misuse of public office'. This new statutory offence covers two situations, namely unlawfully incurring expenditure or incurring expenditure as a result of wilful misconduct. It also covers the exercise of a public function in a manner that involves dishonesty or oppression or malice. The Courts (rather than the District Auditor) would impose penalties. The Council could sue for losses/deficiencies sustained.

### **LEGAL STATUS OF POLITICAL PROMISES AND DOCUMENTS**

145. 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.
146. 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.
147. 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.
148. 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.*

*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:**

149. 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 the Council's Management Team (CMT), the proposals contained in this report have been checked from a legal viewpoint.
150. It should be noted by both Cabinet and Full Council that the decisions they are making, in terms of 'Budget setting' are effectively preliminary decisions, setting the framework for anticipated spending by the Council for 2014/15 to 2016/17. That framework and the matters set out in the budget influence and inform the strategic direction the Council will take during the budget period but specific proposals will require further implementation decisions (either at Cabinet or Officer decision levels as appropriate) in order to be given effect.
151. The Council, as the decision-maker, will take a preliminary decision in relation to its budget, fully aware that the implementation of proposed policies may have an impact on the affected users, but is not committing itself to the implementation of specific policies within the budget framework until it has carried out a full and detailed assessment of the likely impact as and where necessary. Those decisions will in turn address further equalities, consultation and practical matters without their outcome having been 'predetermined' by the approval of the budget.

152. Decision makers may also receive further representations, and/or choose to undertake further consultation on specific proposals. Decision makers will, as a result of further representations, consultation and other material considerations, be free to approve or reject implementation of specific matters proposed as part of the overall budget framework and it will, as a result, be for Council to determine how to meet any budget gap that may arise as a result of such implementation decisions.

## **POLICY FRAMEWORK IMPLICATIONS**

153. 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

<b>WARDS/COMMUNITIES AFFECTED:</b>	ALL
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## **SUPPORTING DOCUMENTATION**

### **Appendices**

1.	Budget Consultation Report
2.	Equality and Safety Impact Assessment
3.	Revised General Fund Revenue Budget 2013/14
4.	Summary of Revenue Pressures
5.	Summary of Revenue Bids
6.	Summary of Efficiencies, Additional Income and Service Reductions
7.	2014/15 General Fund Revenue Account
8.	2014/15 Council Tax Calculation
9.	2014/15 Collection Fund Estimates
10.	Medium Term Financial Forecast
11.	Statutory Power To Undertake Proposals In The Report
12.	Chief Financial Officers View On The Budget

### **Documents In Members' Rooms**

1.	Budget Proposals - Equality and Safety Impact Assessment

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**Equality Impact Assessment**

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	Yes/ <del>No</del>
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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 2014/15 TO 2016/17 – APPROVED BY CABINET ON 19 NOVEMBER 2013	
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