

<b>DECISION-MAKER:</b>	CABINET
<b>SUBJECT:</b>	CONSULTATION ON PROPOSED CHANGES TO THE GENERAL FUND
<b>DATE OF DECISION:</b>	18 AUGUST 2015
<b>REPORT OF:</b>	CABINET MEMBER FOR FINANCE

**CONTACT DETAILS**

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**STATEMENT OF CONFIDENTIALITY**

None

**BRIEF SUMMARY:**

The purpose of this report is to seek Cabinet's approval to consult on the first tranche of revenue budget savings for 2016/17 and beyond.

The report also requests changes to the 2015/16 budget following implementation of some of the savings in this financial year.

It also asks members to note the 2015/16 spending pressures outlined in paragraph 15, and the review of the Medium Term Financial Strategy following on from the Governments July Budget.

Where required staff and public consultation will be undertaken on the savings proposals and the results will be presented to Cabinet and the Council at the appropriate time.

**RECOMMENDATIONS:**

- (i) To note the 2015/16 spending pressures for the General Fund as detailed in paragraph 9.
- (ii) To note the in-year actions to address the spending pressures as per paragraph 15.
- (iii) To note the potential in-year reduction in funding for Public Health as set out in paragraph 16 to 22
- (iv) To note the Medium Term Financial Forecast as set out in paragraphs 23 to 38, including the specific impact on the HRA arising from the recent announcements on Social Housing Rents.
- (v) To note the Revenue Support Grant scenario modelling as set out in paragraphs 26 to 28 and Appendix 1

- (vi) To approve the savings proposals, as set out in Appendix 2 to this report and paragraph 39 to 46, for consultation.
- (vii) Subject to approval of the recommendations contained within the “Future of Southampton Library Service” report elsewhere on the agenda, to agree the additional saving set out in paragraph 47.
- (viii) To note the remaining budget shortfall for 2016/17 to 2019/20 as set out in paragraphs 48 to 49.
- (ix) To consult on the proposed changes to the HR ‘Organisational Change Policy’ and the ‘Redeployment Policy’ for compulsory redundancy so that they are brought in line with the contractual notice period. This will lead to a reduction in both the discretionary notice period and the redeployment period from 4 months to a maximum of 3 months (subject to grade and length of service) as set out in paragraph 55.
- (x) 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 recommendations in this report.
- (xi) To instruct officers to implement savings at the earliest date to secure benefits in 2015/16.

#### **REASONS FOR REPORT RECOMMENDATIONS:**

1. The recommendations have been put forward to ensure that savings proposals are advanced and policy changes are implemented as early as possible as part of the budget process for 2016/17.

#### **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED:**

2. The Executive could choose to only progress savings as part of the annual budget process through the October budget report leading to the setting of the Council Tax in February 2016. However, recognising the importance of seeking to effect change at the earliest opportunity, and to deliver savings in a timely fashion, the Executive are seeking to bring forward a range of savings proposals for early consultation.

This should allow some of the proposals to be implemented in the current financial year and thus deliver in year savings which can contribute to the overall forecast adverse position for 2015/16, and the budget gap for 2016/17 onwards, allowing time to fully consult on other proposals which the Executive wish to implement from April 2016 onwards. Alternative options may be presented to Council at the meeting in November at which a decision on a number of the proposals will be taken after the end of the consultation process. Further options will also be brought forward as part of the October budget report to Cabinet.

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

##### **CONSULTATION**

3. Where new proposals have been put forward these have been subject to consultation with the Council’s Management Team and relevant Cabinet Members.

4. Consultation will be undertaken with trades unions and staff affected by the proposals in line with the agreed HR policies.
5. Full consultation will be undertaken with any people or organisations affected by the proposals to ensure all options have been considered.

### **EQUALITY IMPACT ASSESSMENT**

6. 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.
7. 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.
8. Individual EIAs have been completed by Directors and Senior Managers for those proposals contained in Appendix 2 that they identified require such an assessment, as they could have an adverse impact on a particular group or individuals. The individual EIAs will be published on the Council's website. For proposals that relate to contractual or commissioning arrangements, further work will be undertaken to assess the impact.

### **2015/16 SPENDING PRESSURES**

9. Elsewhere on the agenda is the Corporate Revenue Financial Monitoring for the Period to the end of 30<sup>th</sup> June 2015, setting out the 2015/16 forecast outturn position. The report details an overspend position for the year of £9.43M, due mainly to three areas summarised below:

#### **Education & Children's Social Care Portfolio - £5.84M Forecast Overspend**

10. Looked After Children Service is forecasting an overspend of £4.07M due to significant numbers of children in care above the budgeted level, in particular, with fostering and residential placements with external providers.
11. Specialist Core Services are forecasting an overspend of £0.7M due to agency staff having been employed to cover increasing caseloads and an inability to recruit and retain experienced social workers.

#### **Health and Adult Social Care Portfolio - £2.94M Forecast Overspend**

12. Long Term Care provision services are forecasting an overspend of £2.32M due to the volume of care provision that caused an overspend in 2014/15 continuing into 2015/16. In addition there will be slippage in the achievement of savings agreed in both February 2014 and February 2015 for reductions in volume of care.
13. Provider Services has a forecast overspend of £0.69M resulting from the delay in the final outcome of the Kentish Road and Southampton Day Services review.

## **Environment and Transport Portfolio - £0.51M Forecast Overspend**

14. Domestic Waste Services are forecasting an adverse variance of £0.49M mainly due to staffing costs and agency cover

### **Actions being taken to address the adverse position**

15. The report also details a number of actions that being put in place to address the adverse position. These actions are:
- a. The service areas above are working with finance and transformation to draw up recovery action plans to minimise the amount of pressure being carried forward into 2016/17.
  - b. Vacancy Freeze – all directorates have been instructed to hold posts vacant and to not recruit with only minimal exceptions to be agreed by Directors for critical posts.
  - c. Non Essential Spend – all directorates have been instructed to cease spending on any non-essential non pay expenditure.
  - d. Any posts which have been held vacant and not covered by temporary arrangements for over 6 months will be deleted

### **Public Health Grant Funding**

16. In addition to the above, a further in-year pressure will need to be managed in the delivery of our Public Health service. This pressure is not yet reflected in the forecast outturn position for two reasons. Firstly the actual pressure is not yet known, and secondly the expectation is that the service will need to implement in year saving and potentially ongoing changes to manage the pressure.
17. The pressure arises from the pre-Budget announcements on the 4<sup>th</sup> June 2015 where the Chancellor announced £4.5bn of new measures to bring down public debt. These included £200M reduction in Department of Health Non NHS or Public Health spend in 2015/16.
18. The Government has now released the consultation (03/08/2015) setting out potential ways this saving could be distributed to councils. The consultation sets out 4 possible ways the saving could be distributed. These are:
- A. Devise a formula that claims a larger share of the saving from LAs that are significantly above their target allocation.
  - B. Identify LAs that carried forward unspent reserves into 2015/16 and claim a correspondingly larger share of the savings from them.
  - C. Reduce every LA's allocation by a standard, flat rate percentage. Nationally the £200 million saving amounts to about 6.2 per cent of the total grant for 2015/16, so that would also be the figure DH applied to individual LAs.
  - D. Reduce every LA's allocation by a standard percentage unless an authority can show that this would result in particular hardship, taking account of the following criteria:
    - inability to deliver savings legally due to binding financial commitments;
    - substantial, disproportionate and unavoidable adverse impact on people who share a protected characteristic within the meaning of section 149

of the Equality Act 2010;

- high risk that, because of its impact, the decision would be incompatible with the Secretary of State's duties under the NHS Act 2006 (in particular the duty to have regard to the need to reduce inequalities between people with regard to the benefits they can receive from public health services);
- the availability of funding from public health or general reserves; or
- any other exceptional factors.

19. The Department of Health (DoH) have clearly indicated that their preferred approach to implementing the cut is option C. The impact of these possible methodologies of distribution vary for Southampton from £0.216M (Option B) to £1.1M (Option C). When Public Health transferred from CCGs to Local Authority control on the 1<sup>st</sup> April 2013, they were in various funding positions compared to their target funding positions, many above target (i.e. over funded) and many under target (i.e. under funded). For Southampton, the Public Health service was and remains funded at below target.
20. Whilst not agreeing with the proposed in year cuts, on the basis that they will be imposed, it would seem most fair if in the first instance those authorities whose Public Health service is above their funding target were to absorb the impact of the cuts, and for this reason Southampton will be replying to the consultation stating in the first instance we do not agree with the cuts but if forced to express a preference it would be for Option A above.
21. If the DoH were to proceed with implementing Option C (the largest reduction in the sum of £1.1M), this would move Southampton further below our target funding position. In addition, much of the Public Health budget is tied up in contracts or funding core Southampton services, and making cuts of circa £1M mid-year will be difficult to achieve and will impact on public health provision within the City. Across the sector, the proposed cuts are seen as counter intuitive at a time of rising health and social care needs and costs, and inconsistent with the NHS "5 year forward view".
22. The consultation document is silent on whether the £200M will be a recurrent reduction in 2016/17 onwards. However our planning assumption is that this is the most likely scenario, and on that basis the impact will need to be reflected in the MTFs and future savings proposals.

#### **MEDIUM TERM FINANCIAL STRATEGY (MTFS) AND BUDGET SAVINGS REQUIREMENT 2016/17 to 2020/21**

23. The Medium Term Financial Strategy agreed at Council on the 11<sup>th</sup> February 2015 set out a £90M savings target for the period 2016/17 to 2019/20. The profile of the target is set out in the following table:

24. **TABLE 1 NET SAVINGS REQUIREMENT**

	2016/17	2017/18	2018/19	2019/20
	£M	£M	£M	£M
<b>Expenditure</b>	198.9	210.2	220.9	231.7
Funding Available	(159.8)	(149.6)	(143.2)	(141.6)
<b>Net Saving Requirement</b>	<b>39.1</b>	<b>60.7</b>	<b>77.7</b>	<b>90.1</b>
<b>Annual Saving Requirement</b>	<b>39.1</b>	<b>21.6</b>	<b>17.0</b>	<b>12.4</b>

25. In the Budget Speech on 8<sup>th</sup> July 2015 the Chancellor set out a number of items that may affect the MTFS model going forward. These salient points are set out in the following paragraphs

**Departmental Spend will be set out in the Autumn Spending Review**

26. No local government departmental expenditure levels have been published and it is expected this detail will become clear as part of the Autumn Spending Review on the 25<sup>th</sup> November 2015 (with the absolute detail likely to only be received when the provisional Local Government Settlement is released, which is recent years has been in or around the third week of December). It will only be at this point that we will have a clearer picture of the potential reduction in the Revenue Support Grant (RSG).
27. As a consequence of the lack of clarity over the local government departmental expenditure levels, we have completed some scenario modelling around RSG showing the potential change to the savings requirement detail in Table 1. These scenarios are detailed in Appendix 1, and show the following potential changes to the savings requirement

**TABLE 2 REVENUE SUPPORT GRANT SCENARIO MODELLING**

<b>Assumption Used</b>	<b>2016/17 Savings Requirement</b>	<b>Total Savings Requirement</b>
Current Assumptions	£39.1M	£90.1M
40% reduction in year 1 then revert to existing assumptions	£43.4M	£98.6M
Based on an Overall Funding Settlement loss of 9-10% (LGA Model)	£36.5M	£74.2M
Based on Potential of Departmental Expenditure Levels (SIGOMA Model*)	£32.8M	£73.2M
Based on Office of Budget Responsibility (OBR) Figures (LGA Model – Best Case)	£31.5M	£50.5M

\*Special Interest Group of Municipal Authorities

28. The table above shows the amount of uncertainty in modelling future year's savings to 2019/20, and it is hoped that in December the Provisional Local Government Settlement Figures will provide some more certainty. What is clear though is the target in place for 2016/17 and the assumptions around the Revenue Support Grant for 2016/17 seem to be fairly aligned in all the models (the savings requirement for 2016/17 reflects a reduction in government funding

across each of the above models, some spending pressures and the impact of non-recurrent savings).

### **National Living Wage**

29. The budget introduced a new premium for those aged 25 and over leading to a new National Living Wage (NLW) of £7.20 in April 2016. The Government's ambition is for the (NLW) to increase to 60% of the median earnings by 2020, and it will ask the Low Pay Commission to recommend the premium rate in light of this ambition going forward. Based on OBR forecasts, this means the NLW is expected to reach over £9 by 2020. The Council has adopted the National Living Wage Foundation's calculation, which is currently £7.85, for the payment of SCC employees, and this rate is presently higher than the initial NLW.
30. The Council is mindful of the impact of the NLW on its suppliers, in particular on social care providers, and has already been lobbied by Care England on this issue. At present the Council does not intend to alter any of its existing contracts to take account of the NLW.

### **Public Sector Pay**

31. The Government will fund public sector pay awards of 1% for 4 years from the 2016/17 onwards. This will have a positive impact on the savings target as the current MTFS model assumes 2%.

### **Local Government Assets**

32. The Budget committed to a further £6M to continue to deliver progress and ensure local government rationalises its estates to contribute to growth and ensure efficient use of public assets. Southampton is already a part of this programme

### **Social Housing Rents - HRA**

33. The Government committed to reducing rents in the social sector by 1% per year for the next 4 years. This has a significant impact on the HRA business plan over 30 years, as for each of the next 4 years the business plan had assumed rent increases of CPI plus 1%.

In addition tenants earning a family income of £30,000 will be required to pay market, or near market rents. The additional money generated from this will be paid to central government to fund the extension of the right to buy scheme to social landlord properties. Initial modelling suggests that for a family household earning £30,000, the move to market rent could increase their rental costs by circa 140%, and account for 42% of gross income.

The minus 1% rent announcement will impact on the Council's housing capital programme, and the HRA business plan will need to be significantly revised to manage the impact. The business plan is currently being reviewed, and a revised HRA Business Plan for 2016/17 onwards will be need to be brought forward for approval as part of the budget process.

### **Items not included in the Budget Announcement**

34. A couple of key issues that the budget announcement remained silent on that may have a significant impact on the MTFS are the allocation of the New Homes Bonus and the Council Tax Referendum limit.
35. On these items the current MTFS model assumes the New Homes Bonus will be brought to an end in this financial year (as per LGA advice pre election) and the

maximum council tax increase allowable before a referendum has to be called is set at 1.99%.

36. The impact of NHB is significant. If this funding were to continue, the Council would anticipate receiving additional grant income of circa £4.5M-£5M, which would reduce the budget gap in the same sum (assuming no change to the current spend rules around NHB). The Council will seek to gain clarification on whether NHB will continue or not as this represents a key assumption impacting on the update of the MTFs and the Council's overall financial position.

### **Medium Term Financial Strategy Model Update**

37. The MTFs is reviewed on a quarterly basis and having completed this exercise we are not proposing to amend any of the savings targets at this stage. The reasons for this are threefold:
1. The level of pressures being faced in this year would offset any positive factors from potential new funding or assumption changes
  2. The significant level of uncertainty surrounding the potential settlement figures, (for example NHB and RSG).
  3. The impact of the management actions set out in paragraph 15 on the in-year pressures and the potential impact of these on future years needs to be reviewed.
38. The model will be reviewed and updated at Quarter 2 for any changes we feel can be reflected at that point.

### **OPTIONS FOR SAVINGS**

39. The scale of both the in-year and future financial challenge facing the Council combined with the potential impact of an ongoing difficult economic position make it imperative that proposals for 2016/17 onwards are developed and savings achieved as early as possible.
40. Appendix 2 sets out savings proposals which have been developed and where possible these will be implemented as soon as practicable in the current financial year. The proposals include savings of £10.3M in 2015/16, although at present it is not planned to set aside any of 2015/16 savings to address the 2016/17 gap due to the adverse variance being reported in the monitoring report for the current year and as per paragraph 9. This position will be reviewed as part of the October budget report.
41. The proposed 2016/17 saving is £9.4M, £3.9M of which is a recurrent saving, leaving £5.5M as non-recurrent savings, which by their nature will add to the budget gap in 2017/18.
42. Where possible the intention is to take steps during 2015/16 to implement the savings so that they become fully delivered from 1 April 2016.

### **Minimum Revenue Provision**

43. The main savings included within Appendix 2 are around the Councils Minimum Revenue Provision (MRP).
44. These focus on three areas:
- A. Reviewing the methodology used to determine the provision for borrowing



incurred post 2008, when the Prudential Code was introduced. This changes the method of calculation from an equal instalment basis to an annuity basis similar to that which bank loans are based on.

- B. Reviewing the amount set aside for Pre 2008 debt. Previously we have set aside 4% of this debt, however we only need to set aside what we feel is prudent which at this stage we feel is closer to 2%. The impact of this will be to extend the time it takes to repay this debt. In the past the Council received grant funding for repayment of debt through RSG at a rate of 4% for debt that had been granted under the pre Prudential Code regime. This was then used to repay debt via MRP. Under the new prudential code regime these linkages no longer exist, and in addition to this RSG has been and will continue to be significantly reduced. To maintain the level of debt repayment at 4% in light of these reductions would not be prudent as it would lead to cuts in operational services which could be avoided.
- C. Utilising capital receipts to repay debt enabling a revenue MRP holiday. This allows a significant non recurrent saving to be made and was the methodology used in in 2014/15. It is proposed to continue this strategy for 2015/16 and 2016/17. The impact of this will be the capital expenditure that is planned to be funded from capital receipts will need to be funded from borrowing in these financial years. The impact of this is an increase in borrowing costs, however as borrowing is based on cash need it is unlikely unlikely that new borrowing will occur in the short term.

- 45. The above changes to the treatment of MRP have been identified as savings opportunities. The impact being we are taking advantage of savings in the short/medium term which will come at a cost in the longer term. However, the benefits of the above proposals are still considered prudent in light of the Council's overall financial position. Where the proposal is non recurrent (utilisation of capital receipts and MRP holiday) this will be reviewed each year in light of the Council's updated financial position.
- 46. Each of these changes can be made under the CFO's delegated powers but will be discussed with the external auditor. A revised MRP policy will form part of the next Treasury Management Update to Full Council.

**Library Service**

- 47. Elsewhere on the agenda is a report detailing the future of the Southampton library service. Should Cabinet be mindful to approve this report, the savings proposed would increase by £0.286M to £9.667M in 2016/17 and £4.213M in 2017/18.

**REMAINING BUDGET GAP**

- 48. Table 3 sets the remaining gap should the savings contained within Appendix 2 be recommended to proceed.

**49. TABLE 3 REMAINING BUDGET GAP**

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
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	£M	£M	£M	£M
Net Savings Requirement	39.1	60.7	77.7	90.1
Savings as per Appendix 2	(9.4)	(3.9)	(5.9)	(5.9)
Remaining Budget Gap	29.7	56.8	71.8	84.2
Annual Remaining Budget Gap	29.7	27.1	15.0	12.4
<b>Gap if Library Proposals are agreed</b>				
Remaining Budget Gap	29.4	56.5	71.5	83.9
Annual Remaining Budget Gap	29.4	27.1	15.0	12.4

### **STAFFING IMPLICATIONS**

50. 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.
51. 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.
52. At this stage, based on the savings proposals contained in this report, 4.33 FTE posts are potentially affected of which 1.33 are currently vacant and 3.00 are in post and would be at risk of redundancy, should the proposals for consultation set out in Appendix 2 subsequently be agreed for implementation.
53. It is anticipated that further proposals will have an impact on staffing and will be brought forward in the October budget report.
54. Through the consultation process the Executive are keen to explore all avenues with the Trade Unions and staff to minimise the level of the proposed potential staffing redundancies. The City Council has an excellent past record of using its redeployment policies to minimise any compulsory redundancies arising out of the budget proposals.

### **HR POLICY CHANGES**

55. As part of the Transformation review of HR policies and procedures, a review of the process for implementing restructures is being undertaken. One element under review is the amount of notice period given for individuals who are made compulsorily redundant, which also serves as the period the individual is on the redeployment register. The current redeployment policy allows for a notice period and time on redeployment of 4 months, which is over and above the contractual notice which is required to be given. Therefore, subject to consultation, it is proposed that both the Organisational Change Policy and Redeployment Policy will be revised so they are both in line with the contractual notice period, with the maximum redeployment period therefore being 3 months (depending on grade and length of service). This would result in a saving of at least one month's pay for each employee who exits the organisation via compulsory redundancy.

### **TRANSFORMATION PROGRAMME UPDATE**

56. A number of significant strands of work are ongoing under the Transformation Programme with a number of key strategic business cases on track for inclusion

in the October budget report.

57. The Transformation and Improvement Board, Chaired by the Cabinet Member for Transformation, is meeting fortnightly to consider progress and to guide the ongoing development of the programmes of activity, and to regularly review progress with the current tranche of business cases.

**Property/Other:**

58. None.

**LEGAL IMPLICATIONS:**

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

59. Local Government Acts 1972, 2000 and 2003 and Local Government Finance Act 1992.

**Capital/Revenue:**

60. The revenue and capital implications are as set out in the report.

**Other Legal Implications:**

61. Not applicable.

**POLICY FRAMEWORK IMPLICATIONS:**

62. This report proposes variations to the budget that was approved by Council on 11 February 2015.

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**KEY DECISION?** Yes

<b>WARDS/COMMUNITIES AFFECTED:</b>	All
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**SUPPORTING DOCUMENTATION**

**Non-confidential appendices are in the Members' Rooms and can be accessed on-line**

1.	Revenue Support Grant Scenario Modelling
2a.	Summary of Savings Proposals
2b.	Summary of Efficiencies, Additional Income and Service Reductions

**Documents In Members' Rooms: None**

**Integrated Impact Assessment**

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	Yes
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**Other Background Documents**

**Integrated 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)