

<b>DECISION-MAKER:</b>	CABINET COUNCIL
<b>SUBJECT:</b>	GENERAL FUND REVENUE BUDGET 2011/12 TO 2013/14
<b>DATE OF DECISION:</b>	7 FEBRUARY 2011 16 FEBRUARY 2011
<b>REPORT OF:</b>	CABINET MEMBER FOR RESOURCES AND WORKFORCE PLANNING
<b>STATEMENT OF CONFIDENTIALITY</b>	
N/A	

### **BRIEF SUMMARY**

Since the Council set its 2010/11 budget in February 2010, the economic outlook for the economy has remained pessimistic. The level of public debt is a major issue and prior to the General Election in May, it was recognised that any incoming Government would be required to review public spending in order to reduce the debt burden in future years.

Soon after the election, an interim budget was announced by the Government, which outlined major cuts in public spending. At that time £6.2 billion of in year cuts in Government grant were announced of which more than £1.1 billion were targeted at Local Government. The impact of these cuts on the City Council was the withdrawal in round terms of over £4.6M of grants that represented a significant in year cut to funding. At that time the medium term financial outlook for the City Council estimated that a budget reduction of around £40M would be required over the next three years. However it was recognised that the full extent of the cuts in grant and the impact on the City's financial position would not be known until the Comprehensive Spending Review (CSR) and then ultimately the resulting provisional grant settlement was announced in December. Given this financial position and the risks associated with the forecast, it was estimated that savings options of at least £50M would be required over the next three years in order to balance the budget.

The Council has been improving its medium term budgeting approach over a number of years and has been re-prioritising expenditure towards stated Council priorities and driving out significant efficiency savings year on year. Under normal circumstances this improving strategic approach would have continued on an incremental basis. However, against the current backdrop, the Council has been required to take an extremely robust approach to medium term planning and is challenging every aspect of service delivery in order to ensure that the services provided and the performance levels achieved are at an appropriate level commensurate with the stated Priorities of:

1. Providing good value, high quality services
2. Getting the city working
3. Investing in education and training
4. Keeping people safe
5. Keeping the city clean and green
6. Looking after people

Given the likely impact of the recession and the level of national debt on local government finances, work on the 2011/12 budget was started last January and Officers and the Administration have been working on developing proposals in response to the forecast gap over the next three years. A consolidation exercise was undertaken during October in readiness for the CSR.

At this time, the Administration started a detailed consultation exercise with a wide range of stakeholders using new methods not previously tried before. Proposals affecting staff were provided to the trade unions and consultation undertaken with staff included open door sessions and a staff suggestion scheme. The public were also consulted under the banner of 'Your City Your Say' and the use of the "You Choose" online budget calculator.

On announcement of the CSR in October it was clear that reductions in grant would be at the upper end of the Council forecasts and work was intensified to ensure that the Council had in place savings that would close the anticipated £20M gap which included proposals for changes to staff terms and conditions. The provisional Local Government Settlement was released on 13<sup>th</sup> December and as a result of the damping mechanism the 2011/12 position worsened by a further £5M bringing the total gap to £25M, making it essential that the proposed changes to terms and conditions were realised.

The budget details were further refined after the settlement in conjunction with the Executive and the broad budget and council tax proposals of the Executive were shared with the Unions and Opposition Groups in December on a confidential basis to enable them to start developing their own alternative budgets.

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

- Update this information and set out the latest estimated overall financial position on the General Fund Revenue Budget for 2011/12 and
- Outline the main issues that need to be addressed in considering the Cabinets recommendations to Council on 16<sup>th</sup> February 2011.

## **RECOMMENDATIONS:**

### **CABINET**

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

- (a) Note the position on the estimated outturn and revised budget for 2010/11 as set out in paragraphs 5 to 11
- (b) Approve that the Executive Director for Health & Adult Social Care enter into an agreement with NHS Southampton City (NHSSC) under section 256 of the National Health Act 2006 for a period of two years and three months. Under the agreement NHSSC will transfer budget to the Council to spend on services that benefit health as directed within the Local Government Finance Settlement announced on 13<sup>th</sup> December 2010 and notification from Department of Health on 4<sup>th</sup> January in respect of 2010/11.

The sums to be transferred by NHSSC and for inclusion within the Council's budget are £776,200, £3.1M and £3.0M in 2010/11, 2011/12 and 2012/13 respectively.

- (c) Note the position on the forecast roll forward budget for 2011/12 as set out in paragraphs 13 to 23.
- (d) Note and approve the arrangements made by the Leader, in accordance with the Local Government Act 2000, for the Cabinet Member for Resources and Workforce Planning to have responsibility for financial management and budgetary policies and strategies, and that the Cabinet Member for Resources and Workforce Planning will, in accordance with the Budget & Policy Framework Rules as set out in the Council's Constitution, be authorised accordingly to finalise the Executive's proposals in respect of the Budget for 2011/12, in consultation with the Leader, for submission to Full Council on 16<sup>th</sup> February 2011.
- (e) Recommends that Full Council
  - i) Notes the Consultation process that was followed as outlined in Appendix 1.
  - ii) Approves the revised estimate for 2010/11 as set out in Appendix 2.
  - iii) Approves the use of £0.5M of in year under spends to increase the Organisational Development Reserve in 2010/11 to ensure that adequate provision is made for the costs associated with the implementation of staff related savings.
  - iv) Notes the position on the forecast roll forward budget for 2011/12 as set out in paragraphs 13 to 23.
  - v) Approves an additional draw from General Fund Balances of up to £0.5M in 2011/12 if required during the year.
  - vi) Approves the Invest to Save Bids set out in Appendix 3.
  - vii) Approves the revenue pressures and revenue developments as set out in Appendices 4 and 5.
  - viii) Approves the efficiencies, income and service reductions as set out in Appendix 6.
  - ix) Approves the changes to staff terms and conditions set out in Appendix 7.
  - x) Approves the dismissal and re-engagement of staff in order to implement the changes to terms and conditions in the event that a collective agreement cannot be reached with the Unions.
  - xi) Delegates authority to the Chief Executive as Head of Paid Service in consultation with the Chief Financial Officer (CFO) and the Solicitor to the Council to take any steps in connection with amendments to the Terms and Conditions changes, the negotiation of any potential changes with the Unions and any process associated with the implementation of these changes.
  - xii) Delegates authority to the CFO in consultation with the Solicitor to the Council to make changes to the budget for 2011/12 to reflect negotiated changes to the proposals or if a collective agreement cannot be reached with the Unions

- xiii) Notes that the Independent Remuneration Panel are currently being convened so that they may review and make recommendations on Members' Allowances to Standards and Governance Committee and thereafter Full Council before September 2011 as required by the law.
- xiv) Approves the General Fund Revenue Budget as set out in Appendix 8, which assumes a council tax freeze.
- xv) Delegates authority to the CFO to action all budget changes arising from the approved pressures, bids, efficiencies, income and service reductions and incorporate any other approved amendments into the General Fund estimates.
- xvi) Notes that after taking these items into account, there is an estimated General Fund balance of £5.1M at the end of 2013/14 as detailed in paragraph 54.
- xvii) Delegates authority to the CFO, in consultation with the Solicitor to the Council, to do anything necessary to give effect to the recommendations in this report.
- xviii) Sets the Budget Requirement for 2011/12 at £190,688,500.
- xix) Notes the estimates of precepts on the Council Tax collection fund for 2011/12 as set out in Appendix 10
- xx) Notes the Medium Term Forecast as set out in Appendix 11.
- xxi) 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 2012/13 and 2013/14 and continue to develop options to close the remaining projected gaps in those years.

## **COUNCIL**

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

- i) Notes the Consultation process that was followed as outlined in Appendix 1.
- ii) Approves the revised estimate for 2010/11 as set out in Appendix 2.
- iii) Approves the use of £0.5M of in year under spends to increase the Organisational Development Reserve in 2010/11 to ensure that adequate provision is made for the costs associated with the implementation of staff related savings.
- iv) Notes the position on the forecast roll forward budget for 2011/12 as set out in paragraphs 13 to 23.
- v) Approves an additional draw from General Fund Balances of up to £0.5M in 2011/12 if required during the year.
- vi) Approves the Invest to Save Bids set out in Appendix 3.
- vii) Approves the revenue pressures and revenue developments as set out in Appendices 4 and 5.

- viii) Approves the efficiencies, income and service reductions as set out in Appendix 6.
- ix) Approves the changes to staff terms and conditions set out in Appendix 7.
- x) Approves the dismissal and re-engagement of staff in order to implement the changes to terms and conditions in the event that a collective agreement cannot be reached with the Unions.
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- xii) Delegates authority to the CFO in consultation with the Solicitor to the Council to make changes to the budget for 2011/12 to reflect negotiated changes to the proposals or if a collective agreement cannot be reached with the Unions
- xiii) Notes that the Independent Remuneration Panel are currently being convened so that they may review and make recommendations on Members' Allowances to Standards and Governance Committee and thereafter Full Council before September 2011 as required by the law.
- xiv) Approves the General Fund Revenue Budget as set out in Appendix 8, which assumes a council tax freeze.
- xv) Delegates authority to the CFO to action all budget changes arising from the approved pressures, bids, efficiencies, income and service reductions and incorporate any other approved amendments into the General Fund estimates.
- xvi) Notes that after taking these items into account, there is an estimated General Fund balance of £5.1M at the end of 2013/14 as detailed in paragraph 54.
- xvii) Delegates authority to the CFO, in consultation with the Solicitor to the Council, to do anything necessary to give effect to the recommendations in this report.
- xviii) Sets the Budget Requirement for 2011/12 at £190,688,500.
- xix) Notes the estimates of precepts on the Council Tax collection fund for 2011/12 as set out in Appendix 10
- xx) Notes the Medium Term Forecast as set out in Appendix 11.
- xxi) 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 2012/13 and 2013/14 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 to Council on the 16<sup>th</sup> February 2011 its budget proposals for the forthcoming year. The recommendations contained in this report set out the various elements of the budget that need to be considered and addressed by the Cabinet in preparing the final papers that will be forwarded to Council.

## **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 16<sup>th</sup> February 2011. Alternative options may be drawn up by opposition groups and presented to the same meeting.

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

### **CONSULTATION**

3. Between September 2010 and January 2011, the Council undertook to engage local residents and council staff in the process of defining priorities and developing the budgets for the coming year, via a range of consultation activities. This consultation was in accordance with the duty to consult under Section 65 Local Government Finance Act 1992, and included opportunities to get involved in a number of ways, namely:

- Online via the 'You Choose' budget calculator and online staff feedback forms.
- Face to face via three consultation road shows held on market day in central shopping locations, a residents' forum at the Civic Centre, and for staff, via open door sessions with the Leader of the Council.
- By telephone via phone in slots on community radio stations.
- In writing, via feedback forms and consultation postcards.

Further insight regarding local priorities was also gathered from residents via the 2010 City Survey, which was undertaken during October and November.

A breakfast briefing was held with the business community in October setting out the Council's budget priorities and assessing the impact of the Comprehensive Spending Review on the 2011/12 budget.

More detail is provided in Appendix 1 on the methods used to consult with staff and residents and the feedback received, which has been taken into account when developing the budget proposals.

4. The Council is also required to produce Equality Impact Assessments (EIA's) where appropriate where it is felt that proposed savings could have an adverse impact on a particular group or individuals. EIA's have been produced where appropriate for the savings proposals contained in Appendix 6 and these have been made available in Group rooms. An EIA in respect of the final proposals for Terms and Conditions changes is being prepared and will be made available to Members prior to Cabinet on 7<sup>th</sup> February.

### **ESTIMATED OUTFURN AND REVISED BUDGET 2010/11**

5. This report is concerned mainly with the revenue estimates for 2011/12.

However, there are elements of the 2010/11 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 2010.

6. The original revenue estimates for 2010/11 assumed a general draw from balances of just under £3.5M. After reflecting the revised forecast position from Month 9, this draw reduces by £1.1M to just under £2.4M as show in Appendix 2. The table below summarises the main changes:

	<b>£M</b>
Increase in cost of Coroner's Service	(0.060)
Net Decrease in Interest Paid	1.200
Contributions to Capital DRF Funding	(2.354)
Exceptional Expenditure & Income	2.354
Other Expenditure & Income	(0.085)
<b>Reduction in Draw From Balances</b>	<b>1.055</b>

7. Additional charges have been incurred from Hampshire County Council for the provision of the Coroner's Service and it is estimated that the full year impact of this be an over spend of £59,500. The Council bear a proportion of the cost of this service based on caseload statistics and this has increased above the estimated levels for 2010/11.
8. Net interest payable is forecast to be below that originally estimated by £1.2M as a result of lower than anticipated borrowing costs. This has been as a consequence of lower borrowing levels due to slippage in the Capital Programme and capital expenditure and also the fact that we have borrowed at lower rates than originally estimated. Lower rates have been achieved through a conscious decision to switch to short term debt which is currently available at lower rates than long term debt due to the depressed market.
9. As a result of two separate issues a favourable variance has arisen which it is anticipated will be used to fund additions to the capital programme. The items are:
- One off Receipt in Consideration of Purchase of One Guildhall Square (OGS) – As part of the contractual agreement to purchase OGS the Council has received a payment of which £0.9M is not required to fund any revenue implications of the purchase.
  - Reduced Street Lighting PFI Payments – During the early stages of the PFI contract the Council is to receive 'service deductions' in view of the fact that the contractor will need time to undertake work to install new columns. These deductions are estimated to be £1.45M in 2010/11. These do not represent a failure on behalf of the contractor to deliver the investment programme they are technical accounting adjustments as a result of the way the contract was structured.

Additions to the capital programme to the value of £2.35M are included in the

in the Capital Programme Update report which is to be approved by Council on 16<sup>th</sup> February 2011 to be funded from the above revenue source.

10. Having managed the impact of the in year cuts announced by Government to ensure that the operating budget for 2010/11 remains in balance, portfolios continue to take remedial action to manage a number of the corporate and key issues highlighted in this report. In addition, it has been corporately agreed to put in place a spend moratorium on non essential expenditure for the final quarter of the financial year. This has been agreed in order to ensure that the support which can be given to the challenging financial position the Council faces for 2011/12 can be maximised.
11. It is recommended that £0.5M is added to the Organisational Development Reserve in 2010/11 to ensure that adequate provision is made for the costs associated with the implementation of staff related savings. This will serve to reduce the forecast addition to balances from £1.1M to £600,000 and this amount is reflected in the balances position shown in paragraph 54.

#### **TRANSFER OF FUNDING**

12. As part of the Local Government finance settlement in December it was announced that an additional £648M in 2011/12 and £622M in 2012/13 had been made available nationally to Primary Care Trusts (PCT) for spending on social care services that also benefit the NHS. Subsequently on 4<sup>th</sup> January it was announced by the Department of Health that a national allocation of a further £162M had been made available to PCT's for 2010/11. This funding must be transferred to Local Authorities under section 256 of the National Health Service Act 2006 to be spent on services to improve the overall health gain. NHS Southampton City, (NHSSC) have been allocated the sum of £776,200 for 2010/11, £3.1M for 2011/12 and just under £3.0M for 2012/13. As required a spending plan totalling £776,200 has been agreed with colleagues within NHSSC and the Executive Director for Health and Adult Social Care and is already being enacted upon to maximise the benefit to Southampton clients in 2010/11. A spending plan for the future year's allocations is currently under way between colleagues within NHSSC and Southampton City Council. The contractual arrangements to support the transfer are also in progress.

#### **FORECAST ROLL FORWARD BUDGET 2011/12**

13. The report to Council in July identified a roll forward gap of £12.7M before any further revenue developments, pressures or savings were taken into account. At that time savings proposals which would impact on the 2011/12 budget by more than £4.2M were approved as part of the budget development. However, the revised gap has now been amended 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.
14. The provisional Local Government Finance Settlement for 2011/12 was received on 13<sup>th</sup> December 2010. The provisional settlement position after also allowing for the impact of grants transferring into formula grant was lower than anticipated in July but within the parameters used for planning purposes.



15. The Comprehensive Spending Review (CSR) announcement in October 2010 and then the provisional Local Government Finance Settlement in December have confirmed that spending reductions on the scale planned are necessary to meet the actual reductions in Government grant that have now been announced. The grant settlement covers the two year period 2011/12 and 2012/13 and the Council's loss of formula grant is 10.1% and 6.6% in the two years respectively. Though the majority of the former specific and area based grants have been transferred into formula grant, the reduction in the remaining grants is in excess of 20% in 2011/12.
16. Though the CSR covers the four year period to 2014/15, the Government proposes to carry out a review of grant distribution arrangements prior to 2013/14; therefore the Government grant payable to the Council in 2013/14 and 2014/15 is uncertain. For the purposes of maintaining a three year planning horizon, a medium term financial plan covering the period beyond 2013/14 is being developed based on a further year on year reduction in funding of 7% per annum.
17. 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 in a revised budget proposal for the Council meeting on 16<sup>th</sup> February. In addition announcements in relation to a number of grant funding streams are also still awaited and Officers will continue to review the impact of any grant cuts with a view to passing on the reduction where the grant supports other organisations spending or reducing expenditure where the funding is used to provide City Council services.
18. However, it is also prudent at this stage to assume that a draw on balances may be required to manage the overall position. This report therefore requests approval to draw up to £0.5M from balances in 2011/12 if deemed necessary by the CFO. This reduction in balances would need to be made good in future years if it took the Council below the minimum recommended level of £4.5M.
19. The council tax base for 2011/12 has been set at 66,644, using delegated powers granted by Council on 17<sup>th</sup> January 2007, which has increased the tax base and leads to additional income of £598,400 over and above that previously assumed in the Summer.
20. The estimated Collection Fund surplus at the end of 2010/11 was set at zero for the purposes of the original forecast for 2011/12. Collection rates during the year have improved, the bad debt provision has been reduced and a one off prior year adjustment due to historic discrepancies which were noted during a final review of the 2009/10 accounts and which are now fully resolved has been made. As a consequence of these factors, the latest estimate of the surplus has increased to £3.2M. This funding was deliberately not counted in to previous forecasts due to the uncertainties around the CSR and grant settlement and is available now to offset some of the impacts of the grant reductions.
21. The position published in July included allowances for a number of items such as revenue pressures and bids, which have been rigorously reviewed during the Summer, and as a result, a reduction of £1.1M has been achieved

in the budget provision required.

22. The forecast position currently allows for a contribution to be made to balances of just over £1.25M which will be used in future years. The table below shows these net changes in the overall forecast position:

	<b>£000's</b>
<b>Forecast Deficit in July Mini Budget Council Papers</b>	<b>11,667.1</b>
Mini Budget Savings Proposals	(4,229.0)
Net Impact of Provisional Local Government Finance Settlement	11,205.6
Improved Council Tax Base	(598.4)
Collection Fund Surplus	(3,244.7)
Net Reduction in Requirement for Risk Fund, Bids, Pressures & Revenue Development Funding Built into July Forecast	(654.0)
Addition to Balances	<u>1,268.1</u>
<b>Revised Forecast Deficit</b>	<b><u>15,414.7</u></b>

23. This position shown in the table above represents the 'base' position from which all three political groups may develop their own budgets taking into account the proposals for new spending and savings options put forward by Officers. The specific proposals in this report as set out in the appendices and outlined in the following paragraphs represent the Executive's budget proposals for 2011/12.

#### **INVEST TO SAVE**

24. During this year's budget process, services have been asked to put forward efficiency savings, which assume that there will be a reduction in cost, without there being an overall impact on service provision and the Council's performance. For some of these proposals there is up front expenditure that needs to be incurred before the savings can be realised and these are being put forward as Invest to Save Bids.
25. The Invest to Save Bids, listed in Appendix 3, total £25,000 in 2011/12.

#### **REVENUE PRESSURES**

26. Part of the Budget process each year also looks at unavoidable pressures on services that will have a financial impact, many of which are outside of the control of the service itself. Examples of these would be volume changes, which have a direct impact on costs (e.g. increase in waste levels), legislative changes such as new functions and standards, or areas where the current budget simply does not reflect the level of activity within the service.
27. Pressures totalling £217,000 are being recommended for 2011/12 and are detailed in Appendix 4.

#### **REVENUE DEVELOPMENTS AND REVENUE BIDS**

28. Each political group also has the opportunity to put forward new proposals for spending as part of the budget process which reflect their priorities for service provision. Spending to fund revenue developments is detailed in

Appendix 5 and totals just under £2.25M in 2011/12. Most of these developments reflect ongoing commitments that were approved as part of the budget in previous years.

29. The majority of the revenue developments are complex and strategic projects around which there are uncertainties in relation to timing and speed of progress. Consequently, the funding for revenue developments is placed into a Revenue Development Fund to enable the Council to retain flexibility in funding. Approval to release this funding, making adjustments between schemes and in the timing as required, is delegated to the Executive Director of Resources following consultation with the Cabinet Member for Resources and Workforce Planning.
30. Services are normally invited to put forward a series of bids in order to fund new spending initiatives but given the financial position this year no bids have been progressed for 2011/12.

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

31. The 14<sup>th</sup> July 2010 Council report set out a forecast budget gap of just under £11.7M and at that point, proposals for efficiencies, income generation and service reductions were required to bridge a revised budget gap of just under £15.0M after further revenue developments, pressures or savings were taken into account. The following actions are now reflected in the base position:
  - Mini budget savings proposals of £4.2M.
  - Impact of the Provisional Local Government Settlement £11.2M.
  - Increase in Council Tax Base which delivers additional revenue of £0.6M.
  - Reduction in allowance required for pressures, revenue developments and bids of £1.6M.
  - £3.2M Collection Fund surplus primarily from a one off adjustment reported in the 2009/10 accounts but also from the continued high levels of collection of the council tax over recent years.

Taking the above factors into account, savings of £16.6M are therefore required to balance the draft budget for 2011/12 at an assumed council tax increase of zero. This also allows for the receipt of central government grant funding to 'reimburse' the Council for the loss of 2.5% of additional council tax income forgone through freezing council tax.

32. The Executives recommendations for efficiencies, income generation and service reductions now total over £17.9M, including £5.0M from Terms & Conditions changes and £0.8M from a reduction in management posts, and are set out in detail in Appendix 6. This also allows an addition to balances of just under £1.3M which can be used in future years.
33. The savings proposals inevitably have an impact on staffing within the City Council with 205.08 FTE posts affected of which 29.30 are currently vacant and 175.78 are in post. A further reduction of 35 to 40 posts was also identified as part of a proposed 20% reduction in management posts

following the Chief Executive's announcement in January on changes to the Directorate Structure of the Council. Some of these posts will however overlap with the detailed proposals contained in Appendix 6.

34. Those proposals in Appendix 6 approved when the Full Council sets its budget on 16<sup>th</sup> February will fall into the classification of 'urgent, unplanned' reductions in employee numbers. Therefore, employees will be notified that they are being placed on the 'Redeployment Register' following Full Council decision on 16<sup>h</sup> February for a period of three-months. This has resulted in some of the financial savings being reduced in order to take account of the part year costs of redeployment, and any extension to that period would undermine the Councils financial planning process as the balanced budget is based upon this redeployment approach. The restructure process and timing for the management restructure has yet to be announced.

### **TERMS AND CONDITIONS CHANGES**

35. The scale of the reductions in local government funding has meant that the Council has been forced to look at radical options for reducing expenditure across services. One of these options is to reduce the terms and conditions of staff to produce recurring savings. A commitment has been given by this Executive that no further changes to terms and conditions will be sought for the purposes of budget savings.
36. While it is recognised that the individual impact of such changes on staff would be difficult, this must be set against the alternative option which would have been to look at further cuts in services with the consequential loss of further jobs. Given the impact of this alternative on those individuals who may have been made redundant and on the customers who rely on the services, it is felt that changing terms and conditions should feature as a proposal for the 2011/12 budget and beyond.
37. A series of negotiation meetings were held with the Unions and various communications with staff were sent out to update them on changes to proposals and the Council / Union positions. The Council also faced an added complication in respect of school support staff in Community and Voluntary Controlled Schools and sought legal advice on this matter, together with meetings with Head Teachers and Chairs of Governors. It was therefore not until after Christmas that it was confirmed that school support staff would be included in the proposed changes to terms and conditions.
38. However, in strict legal terms, although staff in these types of schools are employed by the City Council, it is the Governing Bodies that set their terms and conditions and the Council does not therefore have the power to impose these changes on school support staff. Chairs of Governors were therefore asked to hold extraordinary meetings of their Governing Bodies to agree to implement any changes to terms and conditions approved by Full Council as part of the Budget in order to avoid any potential equal pay issues.
39. At the time of writing this report only a few Governing Bodies had met and those that had were not agreeing to implement these changes. However, this does not alter the Council's requirement to implement any changes to pay on a consistent basis across its workforce and therefore the recommendations in this report will still apply to schools support staff albeit

that the Council does not have the power to enforce this. It will however continue to urge Governing Bodies to agree to implement the changes.

40. A final offer in respect of the changes to terms and conditions was made to the Unions on 26<sup>th</sup> January which reflected feedback given to the Council by staff throughout the negotiation process. The offer is detailed in Appendix 7.
41. The Unions are currently balloting their Members on the revised offer and at the time of writing this report the Council does not know if the recommendation of the Unions to their members is to accept or reject the proposals and the outcome of the ballot will not be known until after Full Council meets to set the budget and Council Tax.
42. This report and financial appendices have been prepared on the basis that a collective agreement is reached with the Unions on the current proposals. This is not an attempt to pre-empt the decision, it is simply that the papers must be prepared on some basis and this was the one that was chosen.
43. The recommendations in this report delegate authority to the Chief Executive as Head of Paid Service in consultation with the CFO and the Solicitor to the Council to take any steps in connection with amendments to the Terms and Conditions changes, the negotiation of any potential changes with the Unions and any process associated with the implementation of these changes. If a collective agreement cannot be reached then the Council will need to dismiss and re-engage staff in order to enforce the changes to terms and conditions. None of these changes including dismissal and re-engagement can be applied to school based staff without the agreement of the Governing Bodies.
44. In the event that changes are made to the proposals, this will have an impact on the budget position presented in this report as will the process of dismissing and re-engaging staff since a period of 90 days notice will be given. The recommendations in this report therefore also delegate authority to the CFO in consultation with the Solicitor to the Council to make changes to the budget to take account of these implications. In reality any loss of savings arising from either of these issues will be made up through a draw from balances on a one-off basis and the on going impact will then need to be addressed as part of setting the budget for 2012/13.

#### **MANAGEMENT RESTRUCTURE**

45. The new Chief Executive started with the Council in November 2010 and since his appointment he has been considering the structure of the Council both in light of the financial position of the authority but also in response to the changing environment in which the Council must operate taking into account the changes in the NHS and school sector in particular.
46. His original intention was to take stock of the organisation and seek views on future direction and structure and to put forward restructure proposal before the beginning of the new financial year. However, the severe pressures on the budget together with the pace of change in Government Policy and the public sector generally have accelerated the need for organisational change. Therefore, a letter was sent out to all staff on 19<sup>th</sup> January setting out proposals for a new Directorate structure and the intention to reduce management posts by 20% across the organisation (which includes some

proposals already submitted for middle management posts and detailed in Appendix 6).

47. Detailed proposals in respect of these reductions are still being drawn up and formal consultation will commence with staff in February. At the moment therefore the savings in respect of these changes can only be forecast and provisional sums of £0.8M in 2011/12 and £1.5M in 2012/13 have been included in these budget proposals. Any changes to these amounts will be reported separately once the final reductions are known.

### **PROPOSED BUDGET PACKAGE**

48. Summarised below is the proposed budget package put forward by the Executive for consideration. The detailed analysis is reflected in the General Fund Revenue Account set out in Appendix 8 and shows the changes from the base position outlined in paragraphs 13 to 23. The proposals are based on a Council Tax freeze and include a contribution to balances of just over £1.25M.

	<b>£M</b>
<b>Total roll forward spending (after addition to balances)</b>	<b>206,103.2</b>
Invest to Save Bids (Appendix 3)	25.0
Pressures (Appendix 4)	217.0
Revenue Developments (Appendices 5)	2,248.3
Efficiencies, Income and Service Reductions (Appendix 6)	(12,058.0)
Corporate Savings – Terms & Conditions	(5,047.0)
Corporate Savings – Management Restructure	(800.0)
<b>Budget requirement</b>	<b>190,688.5</b>

### **COUNCIL TAX**

49. The Budget Requirement shown in Appendix 8 is used to calculate the level of council tax for 2011/12. After taking into account Government Grants and an assumed surplus on the collection fund at the end of 2010/11 of just over £3.2M, the total amount to be met by council tax payers is £82,585.6M. This is then divided by the council tax base set by the Executive Director for Resources following consultation with the Cabinet Member for Resources and Workforce Planning to give the basic amount of council tax for the year of £1,239.21, which is a zero increase. The full calculation is set out in Appendix 9.
50. The estimates of the payments from the Collection Fund in the form of precepts for 2011/12 are set out in Appendix 10. This includes preliminary figures for the Police and Fire authorities, for whom proposed council tax increases of zero have been assumed. The Appendix therefore shows that when these items are added to Southampton's council tax, the overall increase remains at zero. These figures will not be confirmed until the budget setting day.

## **GENERAL FUND BALANCES**

51. 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 Chief Financial Officer (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.

52. 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

53. This calculation is updated periodically to reflect current levels of expenditure and income and treasury management operations and also new considerations such as partnership arrangements. Based on this calculation, the minimum level of balances was increased from £4.0M to £4.5M in line with the good practice guidance several years ago. This level was reviewed last year and despite new risks around government grant and interest rate exposure, other changes (such as risks around the Capita contract now that we are over three years in) have meant that the minimum level of balances remain at £4.5M. It is also important to set this figure against the fact that since becoming a unitary authority in 1997 the Council has never had to use its minimum balances to address a financial problem.

54. The table below shows the position for balances after taking into account the outturn for 2009/10, the estimated outturn for 2010/11, the budget proposals set out in this report and the current update of the capital programme.

	2010/11	2011/12	2012/13	2013/14
	£000's	£000's	£000's	£000's
<b>Estimated Opening Balance</b>	<b>19,849.5</b>	<b>13,315.9</b>	<b>11,111.4</b>	<b>7,301.2</b>
Net Draw from / (to) Revenue	1,318.8	1,168.1	(1,340.0)	
Draw to Support Capital	(2,787.0)	(57.0)		
Draw for Strategic Schemes	(5,065.4)	(3,315.6)	(2,470.2)	(2,159.7)
<b>Closing Balance</b>	<b>13,315.9</b>	<b>11,111.4</b>	<b>7,301.2</b>	<b>5,141.5</b>

55. The above projection includes an addition to the to the Organisational Development Reserve of £0.5M in each of the years from 2011/12 to 2013/14 in order to ensure that adequate ongoing provision is made for the costs associated with the implementation of staff related savings.
56. Whilst the level of balances by 2013/14 remains above the minimum required amount of £4.5M, at this stage it is not intended to use this to support the revenue budget in 2012/13 because this forecast does not reflect the possible draw of up to £0.5M which may be needed in 2011/12 as outlined in paragraph 18 due to uncertainties in the budget.

#### **MEDIUM TERM FORECAST**

57. A roll forward forecast has been estimated for 2012/13 and 2013/14 taking into account the future years effects of the proposed pressures and savings as set out in this report. The forecast is included as Appendix 10. 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 the Chief Officers Management Team to pursue the development of future years options highlighted in Appendix 6.
58. The CSR announced in October was for a four year period but the provisional Local Government Settlement released in December was only for two years. As no figures are available beyond 2012/13 it is difficult to move any further towards a more robust rolling three year financial plan. This is exacerbated by the economic climate, uncertainty about Government spending plans in future years and possible changes to local authority funding. The intention remains, however, to produce a high level plan containing longer term objectives that can be pursued outside of the annual budget process and the current forecasts assume a further reduction of 7.0% per annum in Government funding for 2013/14 and also 2014/15.
59. Further work will be undertaken in the next few months to ensure that the assumptions built into the forecast for 2012/13 are robust and reflect the latest predications in relation to key variables such as inflation and interest rates. The intention is that an updated forecast will be presented to Council in the Summer if appropriate.
60. Appendix 11 also includes an increasing sum for future options for efficiencies, income and service reductions in later years that the Chief



Officers Management Team need authorisation to develop and progress.

61. Future savings have also been included in the medium term forecast of £5.7M in 2012/13 rising to £10.4M in 2013/14. These items are work in progress and will be further developed in the coming year.

## **RESOURCE IMPLICATIONS**

### **Capital**

62. The revenue implications of funding the capital programme through supported and unsupported borrowing are reflected in the 2011/12 estimates presented in Appendix 8.

### **Revenue**

63. As set out in the report

### **Property/Other**

64. None

## **LEGAL IMPLICATIONS**

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

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

### **Other Legal Implications:**

66. Appendix 12 sets out a detailed synopsis of the legal issues associated with budget setting within Local Government and Appendix 13 fulfils the Chief Financial Officers statutory duty under the LGA 2003 for reporting on the robustness of the budget proposals and the adequacy of reserves.

## **POLICY FRAMEWORK IMPLICATIONS**

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

<b>AUTHOR:</b>	Name:	Andrew Lowe	Tel:	023 8083 2409
	E-mail:	Andrew.Lowe@southampton.gov.uk		

**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**

### **Appendices**

1.	Report on Budget Consultation Process and Outcomes
2.	Revised General Fund Revenue Budget 2010/11
3.	Summary of Invest to Save Bids
4.	Summary of Revenue Pressures
5.	Summary of Revenue Developments
6.	Summary of Efficiencies, Additional Income and Service Reductions
7.	Terms & Conditions Proposals
8.	2011/12 General Fund Revenue Account
9.	2011/12 Council Tax Calculation
10.	2011/12 Collection Fund Estimates
11.	Medium Term Financial Forecast
12.	Statutory Power To Undertake Proposals In The Report
13.	Chief Financial Officers View On The Budget

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

1.	Equality Impact Assessments
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### **Integrated Impact Assessment**

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	Yes/No
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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)
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1.	CHANGES TO EXISTING REVENUE AND CAPITAL BUDGETS – Cabinet 5 <sup>th</sup> July 2010 and Council 14 <sup>th</sup> July 2010
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