

ITEM NO:17

DECISION-MAKER:	CABINET COUNCIL
SUBJECT:	CHANGES TO EXISTING REVENUE AND CAPITAL BUDGETS
DATE OF DECISION:	5 JULY 2010 14 JULY 2010

REPORT OF: CABINET MEMBER FOR RESOURCES AND WORKFORCE PLANNING

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STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

SUMMARY

Since the Council set its 2010/11 budget in February 2010, the Country has seen a continued decline in the economic outlook. The level of public debt continues to be a major issue and following 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, £6.2 billion of in year cuts in Government grant were announced of which £1.166 billion were targeted at Local Government. This reports sets out the impact of these cuts on the City Council but in round terms over £4.6M of grants were withdrawn.

On 22nd June an interim budget was announced by the Government that outlined major cuts in public spending which will inevitably have a significant impact on the City Council. However it will no doubt be some time before the direct impact on the Council's finances are known.

The medium term financial outlook for the City Council estimates that a budget reduction of around £40M is required over the next three years, assuming a £3.75M per annum reduction in Government grant in each year.

The full extent of the cuts in grant will not be known until the Comprehensive Spending Review has been announced and even then we may have to wait until the provisional grant settlement in late November / early December before we know the full impact on the City's finances. The Council is now taking an approach which challenges every aspect of service delivery in order to ensure that the services provided and the performance levels are at an appropriate level commensurate with the Council 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

This report sets out the first set of proposed variations to the Budget for 2010/11 in response to the in year cuts in Government grant and to prepare for the difficult budget setting process for 2011/12 and beyond. Further proposals may be brought forward to Cabinet and Council if appropriate throughout the course of the year in order to continue to effect change at the earliest opportunity and ensure timely delivery in keeping with the principles of sound financial management.

RECOMMENDATIONS:

Cabinet recommends Full Council to:

- (i) Note the key issues outlined in Appendix 1 arising from the Budget on 22nd June that will have an impact on Local Government.
- (ii) Note the high level forecast for the General Fund for the next three years contained in Appendix 2
- (iii) Note the cuts in Government grant for 2010/11 detailed in Appendix 3.
- (iv) Approve the reductions in budget for 2010/11 in Appendix 4 in response to the cut in Government grant.
- (v) Note the actions that are being taken to manage the in year cuts in grant outlined in paragraphs 21 to 25.
- (vi) Approve an additional draw from General Fund Balances of up to £1M in 2010/11 if required during the year.
- (vii) Approve the efficiencies, income generation proposals and service reductions as set out in Appendix 5, subject to recommendation (viii).
- (viii) Note that prior to a final decision being made regarding grant reductions and new income generation referred to in Appendix 5, formal consultation with affected people and organisations be commenced as soon as possible and to note that the implementation of these savings is subject to the outcome of consultation with affected parties.
- (ix) Delegate authority to the Executive Director of Resources following consultation with the Solicitor to the Council and the Cabinet Member for Resources and Workforce Planning to make any further changes to budgets during 2010/11 in response to the cuts in Government grants, subject to these being reported to Council at a later date.

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REASONS FOR REPORT RECOMMENDATIONS

1. The current medium term financial forecast highlights the challenges facing the Authority. This combined with the potential impact of reductions in future funding levels for Local Government and a further worsening economic position make it imperative that proposals for 2011/12 onwards are developed and savings achieved as early as possible.
2. The recommendations have been put forward to ensure that the operating budget for 2010/11 remains in balance and reflects the priorities of the Executive and to ensure that proposals are advanced as early as possible as part of the budget process for 2011/12.

CONSULTATION

3. Where new proposals have been put forward these have been subject to consultation with the Chief Officers 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 (in line with recommendation viii) to ensure all options have been considered, taking into account the requirements of the council's COMPACT with voluntary and community organisations.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

6. The option to not consider changes to existing revenue budgets is not compatible with the need to ensure effective and robust financial planning given the financial challenges facing the Authority. There are almost limitless options that can be applied to budget changes in the year most of which are driven by political priorities. In formulating the final options to present in this paper the Executive have taken into account the relevant impact of all options that were under consideration and as a result some have not been progressed.

DETAIL

June 22nd Budget

7. Following the formation of the coalition Government, an "emergency budget" was announced by the Chancellor on 22nd June. The majority of the content deals with high level forecasts and tackling the structural deficit and the direct impact for Local Government is therefore almost impossible to gauge at this point.
8. Appendix 1 provides a brief analysis of some of the key issues that will impact on the City Council and perhaps the most significant is that "unprotected departments face a real terms cut of 25% over four years". This equates to 6.25% per annum and assuming an inflation rate of 2.50% would indicate a cut in government grant of around 3.75% per annum against current levels.
9. Other issues of note are a public sector pay freeze over the next two years, and funding for Council's which propose low council tax freezes to enable them to freeze council tax for one year in 2011/12.
10. The expected increase in VAT was also announced but this only impacts on the Council from an income generation point of view, since the Council is generally able to reclaim all VAT paid on the purchases it makes.
11. The announcements in the budget have been reflected as far as possible in the forecast set out in the next section.

Budget Forecast

12. The budget setting process within the Council has generally been focused on the final decisions made at the February Council meeting, although in reality the development of the budget is a year long activity.
13. In the past there has been a tendency to wait until the February meeting before progressing new options for spending and saving which can mean that implementation is delayed until later in the financial year depending on the lead in times required for the different proposals.

14. 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. The worsening economic situation across the Country, and the impact that is having on both the Council financial situation and the demand for services, requires the Council to now take an extremely robust approach to medium term planning.
15. A high level forecast for 2011/12 and 2012/13 based on a 2.5% Council Tax increase, was included in the budget report presented to Council in February 2010 and assumed gaps of £12M and £25M respectively. At this point an increase in grant of 1% had been assumed but this has now been revised to a reduction of 3.75% per annum following the emergency budget (a loss of £4.75M per annum against the previous forecast). The current position for the next three years is shown in Appendix 2. This forecast indicates that the Council faces a budget gap of £15M in 2011/12 rising to nearly £39M by 2013/14.
16. It is important to note that the revised forecast represents the most realistic forecast position moving forward. However, there are a number of risks associated with these revised forecasts, the main risks being as follows:
- Revenue Pressures – inevitably the Council will be faced with revenue pressures on an annual basis. There is a risk that only allowing £2M per annum will be insufficient to cover the level of pressures which materialise.
 - Revenue Bids – each year there are usually a number of revenue bids which Members will wish to take forward. There is now no allowance for Bids and so these will only be possible to accommodate if additional savings are found.
 - Government Grant – A general reduction of 3.75% per annum has been assumed, it is more likely however that specific grants and Area Based Grants will be cut, which may impact on specific service areas.
17. Given this financial position and the risks associated with the forecast, it is estimated that savings options of at least £50M will be required over the next three years in order to balance the budget.

Cuts in Government Grant

18. Following the general election, the Government announced a package of in year cuts in grant to begin to tackle the significant level of national debt. This announcement is unprecedented in recent times and underlines the seriousness of the nation's finances.
19. Of the £6 billion cuts announced, Local Government was to take a £1.166 billion share, details of which are contained in Appendix 3 and show that the impact on Southampton is a reduction in grant of nearly £4.3M. However it

should be noted that in addition, some of the cuts in other Government Departments are also being passed on to Local Government and to date, a further £355,000 of grant reductions have also been notified, increasing the overall total to nearly £4.7M. Further reductions of this sort are expected to be notified in coming weeks.

20. Not all of the reductions necessarily impact on the bottom line of the Council's finances. The table below shows the net impact against the budget that was set for 2010/11

	£000's
Total reduction in grant	4,678
Assumed to be passported to other organisations	(151)
Impact on Capital that will be reviewed when the programme is updated	(790)
Not budgeted for as income	(1,114)
Budgeted but not yet allocated	(380)
Net impact on 2010/11 Revenue Budget	<u>2,243</u>

- 21 The loss of this amount of grant during a financial year will have a direct impact on services and Officers have already identified some areas of spending which are supported by this grants that will have to be reduced. These are outlined in Appendix 4 and total £1,638,000 in 2010/11.
- 22 In addition, Officers have identified further savings that could be implemented during this financial year, that will have a part year impact of £378,000 to offset against the grant losses in 2010/11 and which will provide savings in future years to help close the gap in 2011/12 onwards. These are outlined in more detail in the next section.
- 23 This leaves a budget gap in the current year of £227,000 and Officers will continue to review the impact of the 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.
- 24 Separate management instructions will also be issued by the Chief Executive in due course to remind managers of the continued need to eliminate all unnecessary expenditure in order to further assist in managing the deficit.
- 25 However, given the £227,000 gap and other in year pressures on the budget already being highlighted through monitoring, it is also prudent at this stage to assume that a further draw on balances may be required to manage the overall position. This report therefore requests approval to draw up to a further £1M from balances in the current financial year if deemed necessary by the Chief Financial Officer. 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.

In Year and Future Budget Savings

26. The combined impact of future years forecasts, in year cuts in Government grants and forecasts for spending in the current financial year mean that immediate action is required to ensure that the City Council continues to operate on a sound financial basis.
27. Given the forecasts for future years, the Cabinet has already asked the Chief Officers Management Team to fundamentally review all service areas to consider what reductions could be made in the following areas in order to deliver up to £50M of savings over the next three years :-
- Efficiency savings
 - Income generation
 - Service reductions and
 - Major impact items (those that would only be considered in exceptional circumstances)
28. These options will continue to be developed by the Cabinet over the summer period with a view to producing a consultation report for publication in October. In the meantime, it is necessary to consider reductions that could either be implemented immediately to offset the loss of Government grants or that can be progressed by Portfolios during the year to be implemented as soon as possible or at the latest by 1st April 2011.
29. Appendix 5 sets out savings proposals which have been developed and where possible these will be implemented as soon as practicable in the current financial year, leading to savings of £378,000.
30. The savings for 2011/12 and future years will be taken into account in the development of the budget for that year as part of the longer term strategic approach outlined, but the early decision making will enable implementation to be progressed in advance of the February 2011 budget meeting.
31. The overall impact of the proposals contained within this report are shown in the following table:-

	2010/11	2011/12	2012/13
	£000's	£000's	£000's
Efficiencies	176	1,165	1,400
Additional Income	137	382	387
Service Reductions	65	923	1,023
Savings Proposals	378	2,470	2,810

32. The savings proposals and the reductions following the loss of grant will inevitably have an impact on staffing within the City Council with 40.2 FTE

posts affected of which 11.7 are currently vacant. The City Council has an excellent past record of using its redeployment policies to minimise any redundancies arising out of the budget proposals and the Executive will ensure that this continues for 2010/11 onwards.

33. In the context of the Country's economic climate and continuing recession and the impact that has on the stability of the Council's financial position it is imperative that proposals for 2011/12 onwards are developed and savings achieved as early as possible. Speed of change is essential and therefore those proposals approved when this report goes to Full Council on 14th July 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' for a period of three months following Full Council decision on 14th July once due process in respect of restructures and staff consultation has taken place. 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.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

34. As set out in the report.

Revenue

35. As set out in the report.

Property

36. None

Other

37. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

39. It should be noted that any proposal to reduce grants or introduce new income streams of the kind envisaged in Appendix 5, will be subject to extensive consultation and any representations must be taken into account before a final decision is made, in order to be consistent with current case law and to minimise the risk of legal challenge. It should be noted that this may mean that some savings referred to in Appendix 5 may not be achieved until later in 2010/11 or 2011/12.

POLICY FRAMEWORK IMPLICATIONS

40. This report proposes variations to the budget that was approved by Council on 17th February 2010.

SUPPORTING DOCUMENTATION

Appendices

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

1.	Emergency Budget – Key Issues
2.	High Level Forecast 2011/12 to 2013/14
3.	Summary of Cuts in Government Grant
4.	Reductions in Spending in Response to Cuts in Government Grant
5.	Variations to the Approved 2010/11 Budget and Future Years

Documents In Members' Rooms

1.	None
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Background Documents

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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1.	General Fund Revenue Report 2010/11	
2.	The General Fund Capital Programme Report 2009/10 to 2012/13	

Background documents available for inspection at:

FORWARD PLAN No: **KEY DECISION?** **YES**

WARDS/COMMUNITIES AFFECTED:	ALL
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