

ITEM NO:4B

DECISION-MAKER:	COUNCIL		
SUBJECT:	GENERAL FUND REVENUE BUDGET 2009/10 TO 2010/11		
DATE OF DECISION:	18 FEBRUARY 2009		
REPORT OF:	CABINET MEMBER FOR RESOURCES AND WORKFORCE PLANNING		
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STATEMENT OF CONFIDENTIALITY

N/A

SUMMARY

In a similar approach to previous years, over the Summer Officers prepared a detailed forecast for the 2009/10 budget together with options for additional spending and proposals for closing the estimated budget gap. These details were further developed in conjunction with the Executive and a report was presented to the Cabinet on 27th October 2008 setting out the Executives policy priorities and major items for consultation. This publication also signalled the start of very detailed consultation with a wide range of stakeholders. Proposals were offered to the trade unions and opposition political groups on a confidential basis during December 2008.

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 2009/10 and
- Outline the main issues that need to be addressed in considering the Cabinets recommendations to Council on 18th February 2009.

RECOMMENDATIONS:

COUNCIL

It is recommend that Full Council:

- i) Notes the responses to the Consultation outlined in Appendix 1.
- ii) Approves the revised estimate for 2008/09 as set out in Appendix 2.
- iii) Notes the position on the forecast roll forward budget for 2009/10 as set out in paragraphs 10 to 16.
- iv) Approves the Invest to Save Bids set out in Appendix 3.
- v) Approves the revenue pressures, revenue developments and revenue bids as set out in Appendices 4, 5 and 6.
- vi) Approves the funds to enable a local council tax discount to be set, the rationale for which is set out in the report included as Appendix 7.

- vii) Approves the efficiencies, income and service reductions as set out in Appendix 8
- viii) Approves the General Fund Revenue Budget as set out in Appendix 9 which assumes a council tax increase of 3.29%
- ix) 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.
- x) Approves the introduction of a Revenue Development Fund in the budget and delegates authority to the Executive Director of Resources following consultation with the Cabinet Member for Resources and Workforce Planning to manage the fund.
- xi) Delegates authority to the Executive Director of Resources in consultation with the Solicitor to the Council to do anything necessary to give effect to the recommendations in this report.
- xii) Notes that after taking these items into account, there is an estimated General Fund balance of £4.5M at the end of 2009/10 as detailed in paragraph 40.
- xiii) Sets the Budget Requirement for 2009/10 at £179,470,600.
- xiv) Notes the estimates of precepts on the council tax collection fund for 2009/10 as set out in Appendix 11.
- xv) Notes the Medium Term Forecast as set out in Appendix 12.
- xvi) 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 8 for the financial years 2010/11 and 2011/12 and continue to develop options to close the remaining projected gaps in those years.
- xvii) Approves the Executive's Priorities (as set out in Appendix 15) as the City Council's priorities, and that the relevant Policy Framework Plans should be amended to incorporate these revised City Council priorities.

REASONS FOR REPORT RECOMMENDATIONS

1. The Constitution requires the Executive to recommend to Council on the 18th February 2009 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.

CONSULTATION

2. The major items for consultation in the 27th October 2008 Cabinet report were presented in order to help facilitate widespread consultation with a range of stakeholders, including members of the public, affected organisations, the business community, staff and Trade Unions, who were all invited to submit comments on the proposals. The results of this consultation have been analysed and consolidated by the Head of Communications and a report on the consultation process is attached as Appendix 1. This also sets out a summary of the issues raised and the action that has been taken by the Cabinet as a result.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 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 18th February 2009. Alternative options may be drawn up by opposition groups and presented to the same meeting.

DETAIL

ESTIMATED OUTTURN AND REVISED BUDGET 2008/09

- This report is concerned mainly with the revenue estimates for 2009/10. However, there are elements of the 2008/09 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 9 months ending December 2008. This is underpinned by the current moratorium on non-essential expenditure.
- The original revenue estimates for 2008/09 assumed a draw from balances of £4.967M. After reflecting the revised forecast position from Month 9 this draw reduces by £2,213M to £2.754M as show in Appendix 2. The table below summarises the main changes:

	£M
Net Saving From Risk Fund	(1.965)
Increased Investment Income	(1,950)
Contribution to Transformation Fund	1,000
Procurement Supply Chain Savings	702
Reduction in Draw From Balances	<u>(2,213)</u>

- In a change to previous years, the Council set up a Risk Fund to deal with potential pressures that might arise during 2008/09. A sum of £3.2M was included in the budget to cover these pressures, to be released during the year if additional expenditure against the specific items was identified. At Month 9, it is estimated that pressures within Portfolios will require a net draw £1.235M and as a consequence, there remains an element of the Risk Fund which will not be utilised.
- The forecast for investment income has been increased by £1.7M. Due to the unpredictable nature of forecasting interest rates for the Council's investments, a prudent budget was set for the year. During the first half of the year, the credit crunch has resulted in turbulent interest rates on the money markets, but based on investment returns already achieved it is now possible to increase the forecast with a degree of certainty. In addition, following the February capital update, slippage in the programme has reduced the Council's borrowing requirement and this accompanied by falling interest rates has reduced the forecast amount of interest payable by £0.25M.

8. A key element of the SSP contract was the delivery of savings through transformation and the funding for the programme was to be met through the Transformation Fund. The Transformation Fund was to be pump primed with £1.2M (built into the contract price) and then topped up by adding in a proportion of the savings generated (currently 10%). Savings have been successfully delivered to date which will generate £18.0M over the 10 year contract and as a consequence, a top up to Fund of £1.8M is required in order to undertake future work and also implement outcomes of projects. Provision was built into the budget for £0.3M and an additional further sum of £540,000 was set aside as a further provision and approved by Council as part of the Outturn report for 2007/08 leaving £1.0M to fund.
9. Originally, a separate element was built into the budget for procurement supply chain savings but these are now being delivered through the Capita contract as part of the overall Transformation Programme. Savings have been successfully delivered to date as described above and these savings for 2008/09 are reflected within Portfolios.

FORECAST ROLL FORWARD BUDGET 2009/10

10. The Cabinet report on 27th October 2008 identified a roll forward gap of just under £6.4M before any further pressures or savings were taken into account. However, this figure has now been amended to reflect changes in the overall position since this date.
11. The final Local Government Finance Settlement for 2009/10 was received on 21st January 2009. The final settlement position was marginally higher compared to that previously anticipated and reported on 27th October 2008 by £60,500.
12. Council tax was originally assumed to be set at an increase of 3.00% and this has been increased to 3.29% as part of balancing the final budget. The increase of 0.29% in the level of the council tax will yield £226,500. Furthermore, the council tax base for 2009/10 has been set at 65,661.5 using delegated powers granted by Council last year which has increased the tax base and leads to additional income of £304,300.
13. The estimated Collection Fund surplus at the end of 2008/09 was set at £350,000 for the purposes of the early forecasts for 2009/10. Collection rates during the year have improved and single person discounts have been reduced following a review of entitlements undertaken by our partners Capita. The latest estimate of the surplus has consequently increased to £1.537M and has been used to offset some of the late increases in expenditure due to the current economic climate.
14. The Risk Based Contingency Fund has been increased by net amount of £651,400 to reflect new issues and worsening positions on some items identified previously. Other changes in the detailed estimates submitted by Portfolios have also been reflected in the figures and show a favourable variance due mainly to a downward adjustment in the estimate of inflation in relation to the Dedicated Schools Grant. However, this is more than offset by the adverse impact the dramatic changes in the economic climate have had on anticipated investment income, which is estimated to be lower than originally forecast. The table below shows these net changes in the overall forecast position:

	£000's
Forecast Deficit in October Cabinet Papers (assuming 3% council	6,390.9
Improved RSG/NDR Settlement	(60.5)
Improved Council Tax Base	(304.3)
Collection Fund Surplus	(1536.8)
Increased Risk Based Contingency	651.4
Detailed Estimate Changes and Investment Income	472.2
Revised Forecast Deficit	5,612.9

15. It should be noted that the Risk Based Contingency Fund of £4.8M for 2009/10 includes a sum in relation to the new concessionary travel scheme as the Council is currently awaiting the outcome of appeals to the Department for Transport by several bus operators.
16. 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 2009/10.

INVEST TO SAVE

17. 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 for 2009/10.
18. The Invest to Save Bids, listed in Appendix 3, total £185,000 and these costs will be met from the Invest to Save Fund in 2009/10. However, it is anticipated that these types of efficiency savings will be increasingly generated in the future through the transformation programme that the Council is jointly delivering with Capita and will be paid for through the transformation fund.

REVENUE PRESSURES

19. 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.
20. Pressures totalling £1.631M are being recommended for 2009/10 and are detailed in Appendix 4.

REVENUE DEVELOPMENTS AND REVENUE BIDS

21. 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 £4.842M in 2009/10, including £1.3M for local council tax discounts.

22. 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, it is proposed that funding for revenue developments be placed into a Revenue Development Fund to enable the Council to retain flexibility in funding. Further, it is proposed that approval to release this funding, making adjustments between schemes and in the timing as required, be delegated to the Director of Resources following consultation with the Cabinet Member for Resources and Workforce Planning.
23. Services were also invited to put forward a series of bids in order to fund new spending initiatives. These have been kept separate from the pressures identified above since there is an element of choice in deciding whether to proceed or not with these items. The bids have been reviewed and the proposals for new expenditure put forward by the Executive total £0.4M in 2009/10. These are detailed in Appendix 6.

COUNCIL TAX DISCOUNT

24. The Executive has also included a proposal to introduce separate local council tax discounts for households where all residents are persons over 65 years of age (10%) and for special constables who would receive a full rebate on their council tax. The total estimated costs of granting both of these discounts is £1.3M and returns that have been received so far from the data collection exercise indicate that this figure is a reasonable estimate of the likely discount that would be granted in the year.
25. The decision to grant a local discount must by law be taken by the Executive. However, the financial impact of the decision must be approved by full Council. If the decision is therefore taken by Council to approve funds to enable a local discount to be set, a special Cabinet meeting will be held immediately after full Council on the 18th February to consider approving any local discounts.
26. In deciding whether or not to grant a local discount there are many issues that need to be taken into consideration and the Council has already taken Counsel's opinion on the due process that needs to be followed to justify the granting of the discounts. At this stage, the Council has also received notification that the special constable scheme has been approved by the Home Office.
27. Since the granting of the discount is ultimately dependent on Council approving the funding, the full Cabinet report containing all of the issues to be considered is attached to this report at Appendix 7 for Members information.
28. The report in Appendix 7 expands on the rationale for granting the discount in the context of the Executive's policy priorities. It also underlines the fact that should the proposed 10% council tax reduction for over 65's and 100% reduction for special constables be removed from the budget, the Executive would reduce the recommended council tax increase by the funding released of £1.3M, which equates to 1.68%, bringing the proposed council tax increase to 1.61%.

EFFICIENCIES, INCOME AND SERVICE REDUCTIONS

29. For the purposes of considering an overall budget package, it should be noted that the roll forward budget includes 3% inflation on fees and charges income and a 3% vacancy factor built in to all salary budgets as well as the ongoing effects of savings identified in previous budget rounds. In addition, no allowance has again been given for increments in 2009/10.
30. The 27th October 2008 Cabinet report set out major items for consultation and at that point, proposals for efficiencies, income generation and service reductions were required to bridge a revised budget gap of just under £13.4M. This level of savings was required to balance the draft budget at an assumed council tax increase of 3.00%.
31. The Executives recommendations for efficiencies, income generation and service reductions now total £11.247M and are set out in detail in Appendix 8.
32. The savings proposals inevitably have an impact on staffing within the city council with 128.12 FTE posts affected of which 63.73 are currently vacant and 64.39 are in post. 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 2009/10.
33. Those proposals approved when the Full Council sets its budget on 18th 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 18th 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. To be clear, no redeployment period resulting from any proposals approved by the Council on 18th February 2009 can finish later than 30th June 2009

PROPOSED BUDGET PACKAGE

34. 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 9 and shows the changes from the base position outlined in paragraphs 10 to 16. The proposals are based on a Council Tax increase of 3.29% and include a draw from balances of £1.012M.

	£M
Total roll forward spending (after use of balances)	183.845
Pressures (Appendix 4)	1.631
Rev Developments and Bids (Appendices 5 and 6)	5.242
Efficiencies, Income and Service Reductions (Appendix 8)	(11.247)
Budget requirement	179.471

COUNCIL TAX

35. The Budget Requirement shown in Appendix 9 is used to calculate the level of council tax for 2009/10. After taking into account Government Grants and an assumed surplus on the collection fund at the end of 2008/09 of just over £1.5M, the total amount to be met by council tax payers is £79,658.1M. This is then divided by the council tax base set by the Executive Director for Resources in consultation with the Cabinet Member for Resources to give the basic amount of council tax for the year of £1,213.16 which is an increase of 3.29%. The full calculation is set out in Appendix 10.
36. The estimates of the payments from the Collection Fund in the form of precepts for 2009/10 are set out in Appendix 11. This includes preliminary figures for the Police and Fire authorities who are proposing council tax increases of 4.85% and 3.55% respectively. The Appendix also shows that when these items are added to Southampton's council tax, the overall percentage increase rises from 3.29% to 3.46%. These figures will not be confirmed until the budget setting day.

GENERAL FUND BALANCES

37. It is important for Cabinet to consider the position on balances. Balances are used either to:
- support revenue spending,
 - support the capital programme
 - provide a 'working' balance at a minimum level suggested by the CFO with any projected excess being available to fund any one-off expenditure pressures or to reduce the council tax on a one-off basis. The latter option is not recommended by the CFO.
38. Around 5 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
39. This calculation was updated last year to reflect current levels of expenditure and income and treasury management operations and also to cover the new contract with Capita and the proposed street lighting PFI scheme. Based on this new calculation, the minimum level of balances was increased from £4.0M to £4.5M in line with the good practice guidance. This level reviewed this year and the minimum level of balances confirmed at £4.5M.
40. The table below shows the position for balances after taking into account the outturn for 2007/08, the estimated outturn for 2008/09, the budget proposals set out in this report and the current update of the capital programme.

	2008/09	2009/10	2010/11	2011/12
	£000's	£000's	£000's	£000's
Estimated Opening Balance	12,256	7,488	4,500	4,500
Draw from / (to) Revenue	(2,256)	(1,012)		
Other Net Contributions	40	1,774		
Draw to Support Capital	(518)	(2,149)		
Draw for Strategic Schemes	(2,034)	(1,601)		
Closing Balance	7,488	4,500	4,500	4,500

MEDIUM TERM FORECAST

41. A roll forward forecast has been estimated for 2010/11 and 2011/12 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 12. The funding gap will be reviewed and addressed as part of the ongoing development of 3 year budgeting and Members are being asked to authorise the Chief Officers Management Team to pursue the development of future years options highlighted in Appendix 8.
42. Last year, three year grant settlement figures were announced (which are reflected in the figures in Appendix 12), but as no figures are available for 2011/12 it remains difficult to move any further towards a more robust three year financial plan. This is exacerbated by the economic climate and the inevitable impact this will have in future years on Government spending and 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.
43. Appendix 8 also highlights other options for efficiencies, income and service reductions in future years which the Chief Officers Management Team need authorisation to progress. In addition, the joint transformation team set up with Capita, together with the strengthened procurement team will help to develop greater efficiency opportunities working together with Directorates, some of which are already included in the options outlined in Appendix 8.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

44. The revenue implications of funding the capital programme through supported and unsupported borrowing are reflected in the 2009/10 estimates presented in Appendix 9.

Revenue

45. As set out in the report.

Property

46. None.

Other

47. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

49. Appendix 13 sets out a detailed synopsis of the legal issues associated with budget setting within Local Government and Appendix 14 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

50. 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.
51. On 27th October 2008 the Executive approved policy priorities which have informed their budgetary proposals now before Full Council (Appendix 15). It is recommended that these priorities are now formally adopted as Council Priorities and that having adopted them, the relevant current Policy Framework Plans should be amended accordingly to incorporate these revised Council Priorities and that all new Policy Framework Plans should reflect these Council Priorities.

SUPPORTING DOCUMENTATION

Appendices

1.	Report on Budget Consultation Process and Outcomes
2.	Revised Estimate 2008/09
3.	Summary of Invest to Save Bids
4.	Summary of Revenue Pressures
5.	Summary of Revenue Developments
6.	Summary of Revenue Bids
7.	Consideration of Council Tax Discount Proposals
8.	Efficiencies, Additional Income and Service Reductions
9.	2009/10 General Fund Revenue Account
10.	2009/10 Council Tax Calculation
11.	2009/10 Collection Fund Estimates
12.	Medium Term Financial Forecast
13.	Statutory Power To Undertake Proposals In The Report
14.	Chief Financial Officers View On The Budget
15.	Revised Priorities

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)

1.	Cabinet report on draft budget proposals 27 th October 2008	
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Background documents available for inspection at: www.southampton.gov.uk meeting papers

FORWARD PLAN No: RW0320 **KEY DECISION?** Yes

WARDS/COMMUNITIES AFFECTED:	All
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