

DECISION-MAKER::	CABINET COUNCIL		
SUBJECT:	GENERAL FUND REVENUE BUDGET 2008/09 TO 2010/11		
DATE OF DECISION:	4 FEBRUARY 2008 20 FEBRUARY 2008		
REPORT OF	CABINET MEMBER FOR RESOURCES		
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STATEMENT OF CONFIDENTIALITY

Not Applicable

SUMMARY

In a similar approach to previous years, Officers prepared over the Summer a detailed forecast for the 2008/09 budget together with options for additional spending and proposals for closing the estimated budget gap. These details were provided to all three political groups on a confidential basis during September 2007. These details were used by the Cabinet to develop their own proposals and in a change to the process in recent years, the Cabinet presented a draft budget on 29th October setting out the Executives policy priorities and draft budget proposals. This publication also signalled the start of very detailed consultation with a wide range of stakeholders.

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 2008/09 and to outline the main issues that need to be addressed in considering the Cabinet's recommendations to Council on 20th February 2008.

RECOMMENDATIONS:**CABINET****It is recommended that Cabinet:**

- (a) Note the position on the forecast roll forward budget for 2008/09 as set out in paragraphs 5 to 9.
- (b) Note and approve the arrangements made by the Leader, in accordance with the Local Government Act 2000, for the Cabinet Member for Resources to have responsibility for financial management and budgetary policies and strategies, and that the Cabinet Member for Resources will, in accordance with the Budget & Policy Framework Rules as set out in Part 4 of the Council's Constitution, be authorised accordingly to finalise the Executive's proposals in respect of the Budget for 2008/09, in consultation with the Leader, for submission to Full Council on 20th February 2008.

- (c) Recommends that Full Council:
- i) Notes the position on the forecast roll forward budget for 2008/09 as set out in paragraphs 5 to 9.
 - ii) Approves the invest to save bids set out in Appendix 2
 - iii) Approves the revenue pressures and revenue initiatives as set out in Appendices 3 and 4
 - iv) Approves the efficiencies, income and service reductions as set out in Appendix 6
 - v) Approves the General Fund Revenue Budget as set out in Appendix 7 which assumes a council tax increase of 2.99%
 - vi) Delegates authority to the Chief Financial Officer to action all budget changes arising from the approved pressures, bids, efficiencies, income and service reductions and incorporate any other approved amendments into the General Fund estimates.
 - vii) Notes that after taking these items into account, there is an estimated General Fund balance of just under £5.0M at the end of 2010/11
 - viii) Approves a revised minimum balance of £4.5M as recommended by the Chief Financial Officer in line with the policy guidance outlined in paragraphs 26 to 28.
 - ix) Sets the Budget Requirement for 2008/09 at £172,709,000.
 - x) Notes the changes that have been made to the draft budget presented to Cabinet on 29th October 2007, which are detailed in Appendix 8.
 - xi) Notes the estimates of precepts on the Council Tax collection fund for 2008/09 as set out in Appendix 10.
 - xii) Notes the Medium Term Forecast as set out in Appendix 11.
 - xiii) 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 2009/10 and 2010/11 and continue to develop options to close the remaining projected gaps in those years.

COUNCIL

It is recommend that Council:

- i) Notes the position on the forecast roll forward budget for 2008/09 as set out in paragraphs 5 to 9.
- ii) Approves the invest to save bids set out in Appendix 2
- iii) Approves the revenue pressures and revenue initiatives as set out in Appendices 3 and 4

- iv) Approves the efficiencies, income and service reductions as set out in Appendix 6
- v) Approves the General Fund Revenue Budget as set out in Appendix 5 which assumes a council tax increase of 2.99%
- vi) Delegates authority to the Chief Financial Officer to action all budget changes arising from the approved pressures, bids, efficiencies, income and service reductions and incorporate any other approved amendments into the General Fund estimates.
- vii) Notes that after taking these items into account, there is an estimated General Fund balance of just under £5.0M at the end of 2010/11
- viii) Approves a revised minimum balance of £4.5M as recommended by the Chief Financial Officer in line with the policy guidance outlined in paragraphs 26 to 28.
- ix) Sets the Budget Requirement for 2008/09 at £172,709,000.
- x) Notes the changes that have been made to the draft budget presented to Cabinet on 29th October 2007, which are detailed in Appendix 8.
- xi) Notes the estimates of precepts on the Council Tax collection fund for 2008/09 as set out in Appendix 10.
- xii) Notes the Medium Term Forecast as set out in Appendix 11.
- xiii) 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 2009/10 and 2010/11 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 20th February 2008 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 draft proposals in the 29th October 2007 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 detailed proposals. The results of this extensive 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

3. 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 20th February 2008. Alternative options are also likely to be drawn up by opposition groups that will be presented to the same meeting.

DETAIL

ESTIMATED OUTTURN FOR 2007/08

4. This report is concerned mainly with the revenue estimates for 2008/09. However there are elements of the 2007/08 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 2007. A prudent forecast of an overall saving of £250,000 has been assumed for the year.

FORECAST ROLL FORWARD BUDGET 2008/09

5. The Cabinet report on 29th October 2007 identified a roll forward gap of £8.3M 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.
6. The provisional settlement for 2008/09 was originally released on 6th December 2007 and the final Local Government Finance Settlement for 2008/09 has not been received prior to the publication of this report. The draft settlement position improved by £2.2M compared to that previously anticipated and reported on 29th October 2007. The total grant increased by £6.1M although this allowed for £3.9M of specific grant previously being received directly by services, being transferred to Revenue Support Grant (RSG). Any changes resulting from the final settlement will be taken into account in a revised budget proposal for the Council meeting on 20th February.
7. Furthermore, the council tax base for 2008/09 has been set at 65,410.7 using delegated powers granted by Council last year which have increased the tax base and leads to additional income of £345,000. The Risk Based Contingency Fund has been increased by £170,000 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 lower employer's superannuation contribution rate than originally forecast. The table below shows these net changes in the overall forecast position:-

	£'000
Forecast Deficit in October Cabinet Papers (assuming 3% Council tax)	8,338.5
Improved RSG/NDR Settlement	-2,206.0
Improved Council Tax Base	-345.0
Increased Risk Based Contingency	170.0
Detailed Estimate Changes and Investment Income	-409.5
Net impact of increment factor saving built into detailed budgets	-750.0
Revised Forecast Deficit	<u>4,798.0</u>

8. It should be noted that the Risk Based Contingency Fund of £2.9M for 2008/09 includes a sum of £741,000 representing the difference between the anticipated extra cost of the new concessionary travel scheme (£1.8M) and the grant that the Government will pay to the Council of £1,059,000. National pressure continues to be applied to the Government to fully fund the costs of this scheme from next year onwards.
9. 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 2008/09.

INVEST TO SAVE

10. 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 2008/09.
11. The Invest to Save Bids, listed in Appendix 2, total £504,000 and these costs will be met from the Invest to Save Fund in 2008/09. However, it is anticipated that these types of efficiency savings will be 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

12. 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.
13. Pressures totalling £1.855M are being recommended for 2008/09 and are detailed in Appendix 3. This includes £745,000 additional spending for

Highways Maintenance in line with the funding strategy agreed for this service which anticipates the equivalent of an extra 1% on council tax being added to the budget every year until 2015/16.

REVENUE INITIATIVES

14. 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. These have been kept separate from the pressures identified above as there is an element of choice in deciding whether to proceed or not with these items. The proposals for new expenditure put forward by the Executive total £1.760M in 2008/09. These are detailed in Appendix 4.
15. The most significant of these relates to the proposal to introduce separate local council tax discounts for households containing 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 £1.2M 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.
16. 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 20th February to consider approving any local discounts.
17. 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.
18. 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 5 for Members information.
19. The report in Appendix 5 expands on the rationale for granting the discount in the context of the Executive's policy priorities and 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 £1.2M, which equates to around 1.6%, bringing the proposed council tax increase to 1.39%.

EFFICIENCIES, INCOME AND SERVICE REDUCTIONS

20. 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 2.75% vacancy factor built in to all salary budgets as well as the ongoing effects of savings identified in previous budget rounds.
21. The 29th October 2007 Cabinet report set out draft proposals for efficiencies, income generation and service reductions to the value of £9.7M. This level of savings was required to balance the draft budget at an assumed council tax

increase of 5%. However, this was based on an assumption of a stand still position for revenue support grant and as explained in paragraph 3 the Council received £2.2M of revenue support grant, which has provided greater flexibility in finalising the Cabinet's budget proposals.

22. The Executives recommendations for efficiencies, income generation and service reductions now total £8.171M and are set out in detail in Appendix 6.

PROPOSED BUDGET PACKAGE

23. Summarised below is the proposed budget package put forward by the Executive for consideration. The detailed analysis is reflected in the General Fund Revenue Account set out in Appendix 7 and shows the changes from the base position outlined in paragraphs 4 and 6. The proposals are based on a Council Tax increase of 2.99%.

	£M
Total roll forward spending (after use of balances)	177.515
Pressures (Appendix 3)	1.855
Bids / New Initiatives (Appendix 4)	1.760
Efficiencies, Income and Service Reductions (Appendix 6)	-8.171
Draw from balances / reduction in contingencies	<u>-0.250</u>
Budget requirement	172.709

Detailed changes from the draft budget that was published in October are shown in Appendix 8.

COUNCIL TAX

24. The Budget Requirement shown in Appendix 7 is used to calculate the level of Council Tax for 2008/09. After taking into account Government Grants and an assumed break even position on the collection fund at the end of 2007/08, the total amount to be met by Council Tax payers is £76.451M. 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 £1,168.79 which is an increase of 2.99%. The full calculation is set out in Appendix 10.
25. The estimates of the payments from the Collection Fund in the form of precepts for 2008/09 are set in Appendix 10. This includes preliminary figures for the Police and Fire authorities who are proposing council tax increases of 5.02% and 3.85% respectively. The Appendix also shows that when these items are added to Southampton's Council Tax, the overall percentage increase rises from 2.99% to 3.22%. These figures will not be confirmed until the budget setting day.

GENERAL FUND BALANCES

26. 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 Chief Financial Officer 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.
27. 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
- This produced a recommended balances level at the time of £4M compared to the previous figure of £3M that had been used for many years.
28. This calculation has now been updated to reflect current levels of expenditure and income and treasury management operations, but has also been extended to cover the new contract with Capita and the proposed street lighting PFI scheme. Based on this new calculation, it is recommended that Council set a new minimum level of balances at £4.5M in line with the good practice guidance.
29. The table below shows the position for balances after taking into account the outturn for 2006/07, the estimated outturn for 2007/08, the budget proposals set out in this report and the current update of the capital programme.

	2007/08	2008/09	2009/10	2010/11
	£'000	£'000	£'000	£'000
Estimated opening balance	10,921	6,670	4,959	4,959
Draw to support revenue	(2,701)	(2,076)		
Contributions from other reserves		1,774		
Draw to support capital	(613)			
Draw for strategic schemes	(937)	(1,409)		
Closing Balance	6,670	4,959	4,959	4,959

MEDIUM TERM FORECAST

30. A roll forward forecast has been estimated for 2009/10 and 2010/11 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 11. 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 6.
31. Significant progress was made last year in developing a robust three-year budget strategy in parallel with medium term service planning which was published as the Medium Term Service and Financial Plan from 2007 to 2010. However, developing three year budget plans as part of this year's budget process was difficult in light of the CSR for 2007 which meant once again no grant figures were known for any of the future financial years.
32. Now that the three year grant settlement figures have been announced (which are reflected in the figures in Appendix 11) it is possible to move towards a more robust three year financial plan and the intention is to produce a high level plan containing longer term objectives that can be pursued outside of the annual budget process. 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.
33. Appendix 6 also highlights other options for efficiencies, income and service reductions in future years which the Chief Officers Management Team need authorisation to progress.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

34. The revenue implications of funding the capital programme through supported and unsupported borrowing are reflected in the 2008/09 estimates presented in Appendix 7.

Revenue

Property

36. None

Other

37. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

39. 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

40. 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.

SUPPORTING DOCUMENTATION

Appendices

1.	Report on Budget Consultation Process and Outcomes
2.	Summary of Invest to Save Bids
3.	Summary of Revenue Pressures
4.	Summary of Revenue Initiatives
5.	Consideration of Council Tax Discount Proposals
6.	Efficiencies, Additional Income and Service Reductions
7.	2008/09 General Fund Revenue Account
8.	Summary of Changes Compared to the Draft October Budget
9.	2008/09 Council Tax Calculation
10.	2008/09 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

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Documents In Members' Rooms

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 29 th October 2007	
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Background documents available for inspection at:

FORWARD PLAN NO: RS02599 **KEY DECISION?** YES
WARDS/COMMUNITIES AFFECTED: ALL