

## ITEM NO: 10

<b>DECISION-MAKER:</b>	CABINET COUNCIL		
<b>SUBJECT:</b>	CHANGES TO EXISTING REVENUE AND CAPITAL BUDGETS		
<b>DATE OF DECISION:</b>	29 JUNE 2009 15 JULY 2009		
<b>REPORT OF:</b>	CABINET MEMBER FOR RESOURCES & WORKFORCE PLANNING		
<b>AUTHOR:</b>	Name:	Rob Carr	Tel: 023 80 83 2885
	E-mail:	Rob.Carr@southampton.gov.uk	

### STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

### SUMMARY

Since the Council set its 2009/10 budget in February 2009, the Country has seen a continued decline in the economic outlook. The Country is officially in a depression, economic growth is continuing to decline with a mixture of economic expert views as to when the decline will halt and the Country will begin to see an economic upturn. We are also seeing unemployment and house repossessions continuing to rise.

In setting the 2009/10 budget a very prudent view was taken but clearly the economic climate does have a direct impact upon the Council. Income levels in key areas such as car parking continue to drop, certain service areas supporting those individuals most affected by the economic climate continue to rise sharply such as benefit applications.

All indications regarding the potential levels of Central Government funding which will be made available to the Public Sector and in particular Local Authorities are that funding levels will significantly drop and this will continue for a number of years whilst the Country's economy recovers.

It is clear that the Council's previous approach to annual budget setting in February is not appropriate in the current financial climate. The Council needs to be far more agile in its approach. There is a need to ensure that work commences immediately on implementing changes to re-focus the Council's expenditure towards Council Priorities over the medium term, whilst fast-tracking the delivery of efficiencies across the organisation.

The financial outlook for 2010/11 is a budget reduction of around £12 million and whilst for 2011/12 the early predictions are a further £8 million reduction, this is based upon an assumed increase of 1% in Government Funding. It is likely however that in considering the next Comprehensive Spending Review (CSR), the Government may cut Council funding. In financial planning terms, up to a 3% reduction could be expected which would require a further £4 million reduction in 2011/12 over and above the £8M predicted. Every indication is that this level of saving requirement will be necessary over a sustained period.

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:-

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 2009/10 that was approved by Council on 18<sup>th</sup> February 2009 and further savings in advance of the budget for 2010/11 that will be implemented during this year. Further proposals will 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 high level forecast for the General Fund for 2010/11 and 2011/12 contained in Appendix 1
- (ii) Approve the change in use of the current Transformation budget to be used to lead the Council's Efficiency Programme and pay for an Efficiency Programme Manager reporting to the Executive Director of Resources, additional procurement staff to deliver procurement savings and other support as necessary to fast track efficiency savings and support project management.
- (iii) Approve the efficiencies, income generation proposals and service reductions as set out in Appendix 2.
- (iv) Approve one-off expenditure of £279,600 in 2009/10 set out in Appendix 3 to be funded from the part year savings within this report.
- (v) Approve the re-phasing of the Environment and Transport Portfolio Capital Programme to bring forward up to £1.0M of expenditure on highway improvement schemes from 2010/11 to 2009/10.
- (vi) Delegate authority to the Executive Director of Environment following consultation with the Cabinet Member for Environment and Transport and the Chief Financial Officer to approve capital expenditure of up to £1M for highway improvement schemes in respect of the brought forward funding.
- (vii) Delegate authority to the Executive Director of Resources following consultation with the Cabinet Member for Resources and Workforce Planning to do anything necessary to give effect to the recommendations in this report.

That Full Council:

- (i) Notes the high level forecast for the General Fund for 2010/11 and 2011/12 contained in Appendix 1
- (ii) Approves the change in use of the current Transformation budget to be used to lead the Council's Efficiency Programme and pay for an Efficiency Programme Manager reporting to the Executive Director of Resources, additional procurement staff to deliver procurement savings and other support as necessary to fast track efficiency savings and support project management.
- (iii) Approves the efficiencies, income generation proposals and service reductions as set out in Appendix 2.
- (iv) Approves one-off expenditure of £279,600 in 2009/10 set out in Appendix 3 to be funded from the part year savings within this report
- (v) Approves the re-phasing of the Environment and Transport Portfolio Capital Programme to bring forward up to £1.0M of expenditure on highway improvement schemes from 2010/11 to 2009/10.
- (vi) Delegates authority to the Executive Director of Environment following consultation with the Cabinet Member for Environment and Transport and the Chief Financial Officer to approve capital expenditure of up to £1M for highway improvement schemes in respect of the brought forward funding.
- (vii) Delegates authority to the Executive Director of Resources following consultation with the Cabinet member for Resources and Workforce Planning to do anything necessary to give effect to the recommendations in this report.

### **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 2010/11 onwards are developed and savings achieved as early as possible.
2. The recommendations have been put forward to ensure that the operating budget for 2009/10 reflects the priorities of the Executive and to ensure that proposals are advanced as early as possible as part of the budget process for 2010/11.

### **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 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 and capital 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**

### **Revenue Budget**

7. 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.
8. 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.
9. 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 the Council financial situation and the demand for services requires the Council to now take an extremely robust approach to medium term planning.
10. Last year a report was presented early in the financial year to implement budget proposals that had previously been rejected at the February Council meeting. Although we are not in the same position this year, given the state of the economy and the need to regularly review spending against priorities, the Cabinet wish to consider any proposals which can be implemented early in this financial year, either to have an immediate impact on spending in the current year or to be fully in place in advance for the 1<sup>st</sup> April 2010.
11. A high level forecast for 2010/11 and 2011/12 was included in the budget report presented to Council in February 2009. This forecast has been further developed and a number of the planning assumptions which underpinned this position have been further reviewed. The current position is shown in Appendix 1. This forecast indicates that the council faces a budget gap of £9.6M in 2010/11 rising by £7.7M in 2011/12 to give a cumulative gap of £17.3M by 2011/12.

12. 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 realistic forecasts, the main risks being as follows:
- Pay Inflation – The funding for pay awards has been reduced, based on the current economic climate, and the current deflation within the economy. The updated assumptions are a best guess at likely future pay awards, and clearly there is no certainty as to what actual pay awards will be. They could be higher than the assumptions built into the forecast.
  - Revenue Pressures – Inevitably the Council will be faced with revenue pressures on an annual basis. There is a risk that only allowing £750,000 per annum in 2010/11 and 2011/12 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 such expenditure will only be possible if additional savings are found.
  - Government Grant – The figure for 2010/11 is based on the final year of the current CSR and for 2011/12 an increase of 1% has been assumed.
13. Given these risks, and in order to provide flexibility within the Council's financial planning process, a savings targets of £12 million have been set for 2010/11 and whilst for 2011/12 the Council's forecasts assume a further £8 million reduction will be required, as stated above, this is based upon an assumed increase of 1% in Government Funding.
14. However, it is now a widely held view that in considering the next CSR, the Government may cut funding to Councils. In financial planning terms, up to a 3% reduction could be expected which would require a further £4 million of savings to be made in 2011/12 over and above the £8M predicted. Every indication is that this level of saving requirement will be necessary over a sustained period
15. The Council has been taking a longer-term strategic approach to service and financial planning, but given this backdrop, it must now focus on that approach challenging 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:-
1. Providing good value, high quality services
  2. Getting the city working
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16. This strategic approach will result in the re-focus of Council expenditure towards Priorities and a fast-track approach to delivering efficiencies. The forward plan has been amended to allow for proposals to be brought forward on an on-going basis throughout the year and implementation will be delivered in an agile and timely manner.
17. A key strand of this approach is to ensure that wherever possible, efficiencies are pursued and maximised rather than reducing service provision to council tax payers. The Council has a joint Transformation approach with Capita as part of the Strategic Services Partnership which has been successful in delivering significant procurement and efficiency savings over the last 18 months. The contract required a review to be undertaken after 18 months with the intention of passing the leadership role back to the Council, building on the experience gained through the joint Capita / Council team that had been put in place.
18. The Council has a transformation budget of £300,000 per annum which is currently used to pay the 10% saving contribution to the Transformation Fund. The budget will now be used to pay for an Efficiency Programme Manager reporting to the Executive Director of Resources, additional procurement staff to deliver procurement savings and other support as necessary to fast track efficiency savings and support project management. This will result in releasing Capita from the transformation approach and placing the Council in its true Leadership Role in driving out efficiencies across the organisation with support, as required, from any appropriate source.

### **Options for New Spending and Savings**

19. Appendix 2 sets out savings proposals which have been developed and where possible these will be implemented as soon as practicable in the current financial year, leading to savings of £296,000 in 2009/10.
20. For the majority of the proposals contained in Appendix 2, however, the intention is to take steps during 2009/10 to implement the saving so that they become effective from 1<sup>st</sup> April 2010 leading to savings of just over £1.4M in 2010/11 rising to just under £1.5M in 2011/12.
21. The savings for 2010/11 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 2010 budget meeting.
22. In addition, the Executive have been considering other priorities that they may wish to progress in the current year and have put forward proposals for new one off expenditure in 2009/10 in order to take these forward. Part year savings in 2009/10 will be used to fund these initiatives whilst maintaining the longer term savings achieved.
23. Appendix 3 details the new one off spending proposals that have been highlighted for 2009/10 which total £279,600. These are:
  - To support the Future Jobs Fund (£50,000) providing employment and training opportunities for young people;

- The implementation of a GPS based system within the Waste Management service (£179,600) which will lead to some savings and improved working
- The relocation of the Swaythling Youth Centre to the Woodmill site (£50,000), due to the impending sale of the current Swaythling premises.

24. The overall impact of the proposals contained within this report is shown in the following table:-

	2009/10	2010/11	2011/12
	£000's	£000's	£000's
Efficiencies	(236.0)	(1,112.0)	(1,159.0)
Additional Income	(60.0)	(210.0)	(230.0)
Service Reductions	(0.0)	(99.0)	(99.0)
Savings Proposals	(296.0)	(1,421.0)	(1,488.0)
New Spending	279.6	0.0	0.0
<b>Total</b>	<b>(16.4)</b>	<b>(1,421.0)</b>	<b>(1,488.0)</b>

25. The savings proposals inevitably have an impact on staffing within the City Council with 31.5 FTE posts affected of which 13.5 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 2009/10.

26. In the context of the Country's economic climate and continuing depression and the impact that has on the stability of the Council's financial position it is imperative that proposals for 2010/11 onwards are developed and savings achieved as early as possible. Speed of change is essential and, consequently, those proposals approved when this report goes to Full Council on 15<sup>th</sup> 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' following Full Council decision on 15<sup>th</sup> July 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. To be clear, no redeployment period resulting from any proposals approved by the Council on 15<sup>th</sup> July 2009 can finish later than 30th November 2009.

### **Capital Programme**

27. A major update of the Capital Programme is planned for September 2009, however, this report provides the opportunity to make any necessary changes to the current programme that was approved in February.

28. The slow down in the economy is having an impact on the construction industry and employment throughout the Country. Council's have been encouraged to look at options for bringing forward capital expenditure in order to try to reverse this trend.
29. It is therefore recommended that up to £1.0M of expenditure on highway improvements are brought forward within the Environment and Transport Portfolio Capital Programme from 2010/11 to 2009/10. The detailed works that will be brought forward still need to be decided to ensure they dovetail with the existing programme and traffic management issues for the year and maximises the use of the resources available. Council is therefore asked to delegate authority to the Executive Director of Environment to approve expenditure on schemes in respect of this brought forward funding where this is consistent with existing works and is in line with the Transport Asset Management Plan.

## **FINANCIAL/RESOURCE IMPLICATIONS**

### **Capital**

30. As set out in the report.

### **Revenue**

31. As set out in the report.

### **Property**

32. None

### **Other**

33. None

## **LEGAL IMPLICATIONS**

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

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

### **Other Legal Implications:**

35. Not Applicable.

## **POLICY FRAMEWORK IMPLICATIONS**

36. This report proposes variations to the budget and capital programme that were approved by Council on 18<sup>th</sup> February 2009.



## SUPPORTING DOCUMENTATION

### Appendices

1.	High Level Forecast 2010/11 and 2011/12
2.	Efficiencies, Additional Income and Service Reductions
3.	New Spending Priorities 2009/10

### 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.	General Fund Revenue Report 2009/10	
2.	The General Fund Capital Programme Report 2008/09 - 2011/12	

**Background documents available for inspection at:** Office of the Head of Finance and IT, Civic Centre, Southampton

**FORWARD PLAN No:** RW03508      **KEY DECISION?** YES

<b>WARDS/COMMUNITIES AFFECTED:</b>	ALL
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