

DECISION-MAKER:	CABINET COUNCIL		
SUBJECT:	GENERAL FUND REVENUE BUDGET 2013/14 TO 2015/16		
DATE OF DECISION:	5 FEBRUARY 2013 13 FEBRUARY 2013		
REPORT OF:	CABINET MEMBER FOR RESOURCES		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY

N/A

BRIEF SUMMARY

The purpose of this report is to set out the latest estimated overall financial position on the General Fund Revenue Budget for 2013/14 and to outline the main issues that need to be addressed in considering the Cabinet's recommendations to Council on 13 February 2013.

RECOMMENDATIONS:

CABINET

It is recommended that Cabinet:

- a) Note the position on the estimated outturn and revised budget for 2012/13 as set out in paragraphs 21 to 32.
- b) Note the position on the forecast roll forward budget for 2013/14 as set out in paragraphs 40 to 68.
- c) 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 the Council's Constitution, be authorised accordingly to finalise the Executive's proposals in respect of the Budget for 2013/14, in consultation with the Leader, for submission to Full Council on 13 February 2013.

- d) Recommends that Full Council:
- i) Notes the Consultation process that was followed as outlined in Appendix 1.
 - ii) Notes the Equality Impact Assessment process that was followed as set out in paragraphs 17 to 20 and that the additional detail in Appendix 2 which will be available prior to the Full Council meeting on 13 February 2012.
 - iii) Approves the revised estimate for 2012/13 as set out in Appendix 3.
 - iv) Approve £200,000 in 2012/13 for highway maintenance, to be met from balances which will be replenished by a contribution of £200,000 from regeneration funding from previous years which is no longer required and can now be released to revenue.
 - v) Notes the transfer of funds to the Council under S256 agreements with the NHS Commissioning Board in 2013/14 for £4.0M from the Health transfer funding and for a minimum of £0.6M with NHS Southampton City from the re-ablement / post discharge services as set out in paragraphs 33 to 36.
 - vi) Notes that a new ring-fenced grant will be received in 2013/14 to support the Council's Public Health responsibilities being transferred from the Southampton PCT and that at this stage it has been assumed that this funding will meet the cost of providing the transferred service and therefore will not have any impact on the Council's total net revenue budget requirement as set out in paragraphs 37 to 39.
 - vii) Notes the position on the forecast roll forward budget for 2013/14 as set out in paragraphs 40 to 68.
 - viii) Notes that the Executive's proposed budget as set out in this report has taken into account the recommendations of Overview and Scrutiny Management Committee and of Scrutiny Panel A: Welfare Reforms and the amount transferred to the Council for the transition of the Social Fund for 2013/14 and 2014/15 is to be allocated solely for the use of developing local welfare provision.
 - ix) Approves an additional draw from General Fund Balances of up to £0.5M in 2013/14 if required during the year.
 - x) Approves the revenue pressures set out in Appendix 5.
 - xi) Approves the addition to the Leader's Portfolio of £500,000 in 2013/14 to fund initiatives with the aim of "Getting Our Economy Moving" as set out in paragraph 75.
 - xii) Approves the efficiencies, income and service reductions as set out in Appendix 6.
 - xiii) Approves the General Fund Revenue Budget as set out in Appendix 7, which assumes a council tax increase of 1.9%.

- xiv) 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.
- xv) Approves a revised minimum balance of £5.5M as recommended by the Chief Financial Officer in line with the policy guidance outlined in paragraphs 99 to 104.
- xvi) Notes that after taking these items into account, there is an estimated General Fund balance of £5.5M at the end of 2015/16 as detailed in paragraph 102.
- xvii) Delegates authority to the Chief Financial Officer, in consultation with the Director of Corporate Services, to do anything necessary to give effect to the recommendations in this report.
- xviii) Sets the Council Tax Requirement for 2013/14 at £70,049,100.
- xix) Notes the estimates of precepts on the Council Tax collection fund for 2013/14 as set out in Appendix 9
- xx) Notes the Medium Term Forecast as set out in Appendix 10.
- 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 5 for the financial years 2014/15 and 2015/16 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) Notes the Equality Impact Assessment process that was followed as set out in paragraphs 17 to 20 and the additional detail in Appendix 2 which will be available prior to the Full Council meeting on 13 February 2012.
- iii) Approves the revised estimate for 2012/13 as set out in Appendix 3.
- iv) Approves £200,000 in 2012/13 for highway maintenance, to be met from balances which will be replenished by a contribution of £200,000 from regeneration funding from previous years which is no longer required and can now be released to revenue.
- v) Notes the transfer of funds to the Council under S256 agreements with the NHS Commissioning Board in 2013/14 for £4.0M from the Health transfer funding and for a minimum of £0.6M with NHS Southampton City from the re-ablement / post discharge services as set out in paragraphs 33 to 36.

- vi) Notes that a new ring-fenced grant will be received in 2013/14 to support the Council's Public Health responsibilities being transferred from the Southampton PCT and that at this stage it has been assumed that this funding will meet the cost of providing the transferred service and therefore will not have any impact on the Council's total net revenue budget requirement as set out in paragraphs 37 to 39.
- vii) Notes the position on the forecast roll forward budget for 2013/14 as set out in paragraphs 40 to 68.
- viii) Notes that the Executive's proposed budget as set out in this report has taken into account the recommendations of Overview and Scrutiny Management Committee and of Scrutiny Panel A: Welfare Reforms and the amount transferred to the Council for the transition of the Social Fund for 2013/14 and 2014/15 is to be allocated solely for the use of developing local welfare provision.
- ix) Approves an additional draw from General Fund Balances of up to £0.5M in 2013/14 if required during the year.
- x) Approves the revenue pressures set out in Appendix 5.
- xi) Approves the addition to the Leader's Portfolio of £500,000 in 2013/14 to fund initiatives with the aim of "Getting Our Economy Moving" as set out in paragraph 75.
- xii) Approves the efficiencies, income and service reductions as set out in Appendix 6.
- xiii) Approves the General Fund Revenue Budget as set out in Appendix 7, which assumes a council tax increase of 1.9%.
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- xvi) Notes that after taking these items into account, there is an estimated General Fund balance of £5.5M at the end of 2015/16 as detailed in paragraph 102.
- xvii) Delegates authority to the Chief Financial Officer, in consultation with the Director of Corporate Services, to do anything necessary to give effect to the recommendations in this report.
- xviii) Sets the Council Tax Requirement for 2013/14 at £70,049,100.
- xix) Notes the estimates of precepts on the Council Tax collection fund for 2013/14 as set out in Appendix 9.
- xx) Notes the Medium Term Forecast as set out in Appendix 10.

- 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 5 for the financial years 2014/15 and 2015/16 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 its budget proposals for the forth coming year to Full Council. 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 13 February 2013. Alternative options may be drawn up by opposition groups and presented to the same meeting.

DETAIL (Including consultation carried out)

CONSULTATION

Introduction

3. Southampton City Council's Cabinet published their draft budget proposals for 2013/14 for public consultation on 12 November 2012. The scale of the challenges faced by the council meant that while the Cabinet wanted to encourage genuine ideas for achievable savings by consulting as widely as possible, they were keen to manage expectations. This is because decisions to protect one service will inevitably have an impact on another service. The administration's approach in the long term is to raise awareness so that consultation is not just about saving a service but about prioritising within ever decreasing resources. The consultation provided information on what the challenges were and why the council was in this financial position. It explained that the budget proposals contain a number of ways for the council to increase our income and make efficiencies, and included a proposal for a modest increase in council tax.

Consultation Process

4. Consultation on the Council's draft budget for 2013/14 ran for over 12 weeks between 12 November 2012 and 9 February 2013. It was split into two broad categories – internal and external. A variety of methods were used to assist a wide range of people to give their views to inform the final budget which is due to be agreed by Full Council on 13 February 2013. This included residents, service users, employees, Trade Unions, partners, businesses, community and voluntary sector organisations and other stakeholders.

This is in addition to the council's decision making processes which include feedback from the Overview and Scrutiny Management Committee (OSMC) and the Welfare Reforms Scrutiny Inquiry.

5. The Leader led the consultation on the budget proposals supported by Cabinet, the Chief Executive and Directors and staff in the Communities, Change and Partnership division. This was complemented by service led consultation in areas where the managers considered this to be appropriate and necessary. Cabinet Members, Directors and senior managers also attended meetings with residents, employees and other stakeholders. Details are attached at Appendix 1.
6. Comprehensive staff consultation was also undertaken by service managers, led by Human Resources. Guidance was issued to managers so that they had the necessary information to ensure full, meaningful and appropriate external consultation on specific budget proposals in their service areas. Separate guidance for internal staff consultation on specific budget proposals was also provided by Human Resources. It was ensured that the two sets of guidance were consistent.
7. External interest groups consulted included residents and stakeholders, area based community and voluntary groups, specific user groups such as young people and library users, partners and the business sector. Methods included:
 - A questionnaire made available on the council's website, in libraries and local housing offices;
 - Seven area based meetings,
 - Posters on relevant buses and bus stops for routes impacted by the draft proposals,
 - Attendance at public meetings organised by interest groups
 - Letters to relevant business and partner organisations.
8. Given that the council cannot afford to continue to do everything that it currently does, the consultation process was designed for Cabinet and senior managers to hear views about:
 - The council's approach to delivering savings while prioritising:
 - keeping people and places safe
 - helping people tackle poverty
 - meeting our legal obligations
 - Suggestions for making savings and generating income that we have not yet considered.
 - Potential impacts and action we could take to reduce impacts that we have not already identified or explored.
 - Different ways the council could deliver services such as working with others, including partner organisations and local communities.

Consultation Feedback

9. The Cabinet agreed that despite having limited resources to undertake consultation every effort would be made for the consultation to ensure it was inclusive, informative, understandable, appropriate, meaningful and reported.

10. In the 2011/12 budget the council's consultation process resulted in 478 responses from residents. The 2012/13 budget consultation also reached a range of stakeholders including the businesses sector. To date, for the 2013/14 budget consultation, over 2,150 external responses have been received and this included a number of responses which were made on behalf of individual organisations and their members and service users
11. This is a greater response than in previous years, reflecting a wide range of methods deployed this year. Whilst efforts have been made to improve the level and type of consultation undertaken, part of the reason for this increase in numbers could be attributed to the scale of reductions proposed in this budget, with libraries and the youth service being particular examples that generated huge public interest.

Issues Raised

12. Analysis of the feedback received has identified the 10 most frequently raised issues as:
 - Reduction in library opening hours that resulted in no evenings access
 - Deletion of youth services and reduction on support to adventure playgrounds
 - Impact of changes in parking charges - on local businesses and for residents in some areas of the city where finding a parking space is an issue
 - Deletion or reduction of prevention and support services for children and families, for example young carers support
 - Changes to the adult social care non residential care charging policy
 - Potential impact on bus services resulting in reduced or no transport access to people for jobs and health services, as a result of the proposal to withdraw bus subsidy
 - Reduction in Art Gallery opening hours
 - Impact of the loss of a staffed tourist information centre facility on promoting and increasing access to Southampton as a place to spend time and money in
 - Importance of focusing more on income generation
 - Deletion of the Archaeology Unit
13. The Cabinet have considered and reviewed proposals in response to the consultation feedback. The Council received its draft funding settlement from the Government for 2013/14 and 2014/15 just before Christmas 2012. Initial analysis of the council's financial position indicates that additional one off funding is now available in 2013/14. However, as the future financial forecast position continues to be challenging, where possible, changes to proposals have been made with a view to mitigating the greatest impacts whilst considering how best longer term and more sustainable solutions can be delivered.

14. The consultation feedback included information on proposals which have impacts that had not previously been identified. This information is being reflected in the Equality and Safety Impact Assessments and to the Cumulative Impact Assessment which will be revised and published with the council budget papers in February 2013.
15. The following issues raised in the consultation feedback have influenced the revised budget proposals:
- **Libraries** – As a result of the overwhelming response from residents on the library proposals, changes to the reduction in opening hours are being considered. The feedback received contained a lot of information and suggestions for how to minimise the impact of the proposal. Whilst the detail is still being developed, in line with the feedback, consideration is being given to libraries in particular areas highlighted by the feedback: Central Library as the flagship facility, and maintaining a level of evening opening hours at Burgess Road, Portswood and Cobbett Road libraries.
 - **Youth and Play Services** – The consultation highlighted concerns about the reduction in youth services and the important role they play in preventing anti social behaviour and supporting young people to develop. As a result, the proposals for youth services have been amended and work will be undertaken to develop alternative future delivery models.
 - **Adult Social Care non-residential charging policy** – The feedback to the consultation on proposals in relation to the non residential charging policy included recognition that while those who can ‘truly’ afford to do so should pay towards the cost of their care, support was needed for those most affected and therefore, the changes should be phased in. As a result of feedback there will be a review of day service provision with a view to developing more personalised approaches and the increases in contribution rates will be phased in over two years.
 - **Prevention and support services for children and families** – Concerns were highlighted, particularly by the NHS, the voluntary sector and staff, regarding the size of the reductions in children’s services as a whole and the cumulative impact of the loss or reduction of support and prevention services for children and young people. Particular concerns were raised regarding CAMHS services, young carers and young people in danger of sexual exploitation. In response to this, the proposals for the reduction or cessation of young carers, foster care breaks, children missing or at risk of sexual exploitation, some CAHMS services, advocacy for disabled children and Jigsaw have now been reviewed and are detailed in the main report.
 - **Charges at district centre car parks** – Feedback received has highlighted concerns that the proposals would impact on local traders and reduce the footfall in district centres. The Cabinet has responded by reviewing the proposal to introduce car parking charges in district centres and details are in the main report.

- **Poverty and the impact of the welfare reforms** – The council’s draft Cumulative Impact Assessment identified that a number of proposals will add service charges, increase costs or change the threshold for eligibility for residents on low incomes. Additional costs or loss of services will hit those receiving benefits at the same time as welfare reforms are phased in. Feedback on several of the budget proposals has echoed these concerns. A Scrutiny Inquiry on the Welfare Reforms also concluded that voluntary organisations and council services expect to see an increase in demand for services, adding pressure on budgets and reducing their capacity to manage the changing need. As a result, the Cabinet proposes that transitional funding is set aside to develop and implement a sustainable and holistic mixed model approach to local welfare provision. The aims are for this scheme to harness existing provision to enable residents vulnerable to financial crisis to become more self-reliant and to build the capacity of the voluntary sector.
- **Children’s Services Commissioning, Policy and Business Support** – Consultation feedback from professionals highlighted concerns about the impact of cuts in support services upon the efficiency and effectiveness of services across the directorate, particularly in relation to safeguarding services for vulnerable children, leaving social workers doing more of their own business support and in maintaining a robust overview of how money is spent and how well services are performing. Staff within services also highlighted concerns in relation to both the capacity of services to support legal, financial and contractual needs of the council in commissioning services, and suggested sustainable alternative ways of funding some of these services without losing this capacity. As a result, the proposed savings in relation to business support to front line services and the management of complaints and customer care have been reduced, and alternative proposals for delivering savings in relation to performance management, commissioning and contracts work have been developed.

Feedback on the Consultation Process

16. In addition to feedback on the budget proposals themselves, comments were also received on the consultation documentation and process. The council will consider these issues for next year’s consultation process with a view to improving it. Key issues raised included the need to improve:
 - Accessibility of the budget information – this includes easy to understand language and a better explanation of the impacts on residents and stakeholders
 - Engagement with service users to consider the potential impact of proposals and when developing Equality and Safety Impact Assessments
 - Need for more demographic data to improve the level of analysis on responses
 - Availability of the budget proposals to community representatives
 - Easier access to the published version on the website

- Early and ongoing strategic and honest dialogue with the voluntary sector
- equality impact assessments for non-budget related decisions so that they can be published
- Partnership working in aligning the priorities of respective organisations and optimising opportunities to strengthen and accelerate joint working through the work of existing arrangements such as the Joint and Integrated Commissioning Board, the recently agreed Joint Commissioning Framework and related work
- Future joint working on both local authority and health savings proposals including the development of a joined up approach that seeks to mitigate and manage the overall impact on the city and on provider organisations and a review of the impact and priorities in the round as joint commissioners.

EQUALITY AND SAFETY IMPACT ASSESSMENTS

17. The Equality Duty is a duty on public bodies which came into force on 5 April 2011 and requires the Council to show that it has 'had regard' to the impact of its decisions on its equality duties and the need to advance equality of opportunity between people who have protected characteristics and those who do not. While the Equality Duty does not impose a legal requirement to conduct an Equality Impact Assessment (EIA), it does require public bodies to show how they considered the Equality Duty and that they have been consciously thinking about the aims of the Equality Duty as part of the process of decision-making. To comply with these requirements as well as the Community Safety legislation, the council has used its existing impact assessment framework so that it can ensure the use of a consistent, council wide mechanism to evidence how decision-making took into account equality and safety considerations.
18. Individual Equality and Safety Impact Assessments (ESIAs) have been completed by Directors and Senior Managers for those proposals contained in Appendix 6 is where it is felt that proposed savings could have an adverse impact on a particular group or individuals. The individual ESIAs are available in Members' Rooms.
19. The individual ESIAs completed by service managers have been analysed to consider the cumulative impacts the Council's budget proposals may have on particular groups and the mitigating actions that could be considered. The first draft of the Cumulative Impact Assessment was completed by a central team of officers within the council, based on the initial ESIAs completed by service managers. This was published alongside the Executive's draft budget proposals on 12 November 2012
20. The Cumulative Impact Assessment will be updated in time for the Full Council meeting on 13 February 2013 as they have to be revised on the basis of amended ESIAs. Service managers are currently revising their ESIAs to reflect feedback they have received on impacts from different stakeholder groups – service users, partners, businesses and residents.

The updated Cumulative Impact Assessment will be available in Members' Rooms and at Appendix 2 prior to the Full Council meeting on 13 February 2012.

REVISED BUDGET 2012/13

21. This report is concerned mainly with the revenue estimates for 2013/14. However, there are elements of the 2012/13 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 2012 as far as it is prudent to do so.
22. The original revenue estimates for 2012/13 assumed a general draw would be made from balances of almost £2.8M. After reflecting the revised forecast position from Month 9 and assuming additional funding for children's safeguarding and additional expenditure on highways maintenance, this draw increases by £200,000 to almost £3.0 as shown in Appendix 3. The table below summarises the main changes:

	£M
Net Decrease in Capital Financing Charges	2.00
Additional Non-Specific Government Grants	0.35
Reduction in Risk Fund Provision	0.55
Increased funding for Children's Safeguarding	(2.90)
Increased funding for Highways Maintenance	(0.20)
Increase in Draw From Balances	0.20

Capital Financing Charges

23. The favourable variance of £2.0M is in part due to an accounting adjustment to reverse a provision for Equal Pay which was created in 2009/10 to meet liabilities arising from a number of equal pay claims received by the Council. This provision was funded through capital expenditure which the Council was able to undertake following receipt of a Capitalisation Direction. The impact of reversing the provision is to reduce the capitalisation requirement which in turn reduces the level of Minimum Revenue Provision (MRP) which the Council is required to make.
24. In addition, net interest payable is forecast to be below that originally estimated as a result of lower than anticipated borrowing costs. This is as a consequence of lower forecast borrowing levels as we have maximised use of our internal balances and also the fact that when we do borrow it will in all likelihood be at lower rates than originally estimated.
25. Lower rates have been achieved through a conscious decision to continue to utilise short term variable rate debt which remains available at lower rates than long term fixed rate debt due to the depressed market.

The prediction based on all of the economic data available is that interest rates will remain lower for a sustained period of time and that this situation will therefore continue into 2013/14 and beyond.

Non Specific Government Grants

26. Additional non specific Government grant income has been received resulting in a forecast favourable variance of £350,000. The main variance is due to an amendment to previously announced formula funding.
27. The Government has reviewed the deductions made from local authority formula grant allocations for 2011/12 and 2012/13 in respect of the funding top sliced for Academies in order to attempt to better reflect the pattern of Academy provision across the country. As a consequence of this review, a “refund” has been paid to the Council as the amount top sliced from formula grant has been assessed as being bigger than it would have been had the deduction been based on the number of Academies within the City during 2011/12. This “refund” has been calculated by the Department for Education as £328,200 and was received in Quarter 3.
28. In addition to this there have been a small number of grant notifications which have differed slightly from the initial assumed level of funding.

Risk Fund Provision

29. Potential pressures that may arise during 2012/13 relating to volatile areas of both expenditure and income are being managed through the Risk Fund. A sum of £3.9M is included in the budget to cover these pressures and is taken into account during the year as evidence is provided to substantiate the additional expenditure against the specific items identified.
30. At Month 9, it is estimated that pressures within Portfolios will require the allocation of £2.8M from the Risk Fund. It has been assumed that a further draw of £0.5M may be required in 2012/13 which will result in an overall forecast favourable variance on the Risk Fund of £550,200. The provision made within the Risk Fund has been reviewed as part of the development of the budget for 2013/14 to ensure that a sufficient allocation is included for such pressures in the future.

Children’s Safeguarding

31. The changes outlined in paragraphs 23 to 30 result in a favourable position of £2.9M and this funding will be used to increase the budget within the Children’s Services Portfolio for children’s safeguarding. This is under pressure due to an increase in the number of children in care and the cost of additional staffing resources within the service and associated areas providing support such as Legal Services.
32. Children’s Services Portfolio is currently forecast to over spend by £3.2M and this in year addition will ensure that this shortfall in funding is addressed. Budget provision in 2013/14 has been reviewed as part of the development of the budget and additional funding has been allocated in the medium term. In the longer term the service have developed a strategy to manage the pressures that are being experienced.

TRANSFER OF HEALTH FUNDING

33. As part of the provisional Local Government finance settlement in December 2012 it was announced that an additional £859M in 2013/14 and £900M in 2014/15 has been made available nationally to the NHS Commissioning Board for spending on social care services that also benefit the NHS. 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. The Council has been allocated the sum of £4.0M for 2013/14 and just under £4.2M is estimated for 2014/15.
34. In addition it was announced that Clinical Commissioning Groups (CCGs) would also receive funding of £300M in 2013/14 for post discharge services / reablement. Southampton CCG have been allocated the sum of £1.4M for 2013/14. This funding is to be used by CCG's in conjunction with local partners. There is not an obligation to transfer the funding to Local Authorities. However, upon agreement with Southampton CCG it is proposed that a minimum of £0.6M is also included within a S256 agreement for 2013/14.
35. There has been an increase in the funds to benefit Social Care and the NHS above that previously forecast for 2013/14. The 2012/13 allocation was £3.0M. Based on national figures previously published for 2013/14 it was assumed that the Council's allocation would increase from the £3.0M received in 2012/13 to £3.6M in 2013/14. It was announced in December 2012 that the actual allocation the Council would receive is £4.0M, an increase of £0.4M above that upon which the Adult Services spending plans have been based for 2013/14. The spending plans for the entire allocation will be agreed at the Health and Well-Being Boards in conjunction with the National Commissioning Board and Southampton CCG and will have regard to the Joint Strategic Needs Assessment, (JSNA).
36. For the Council to be able to respond effectively to the contractual and budgetary changes arising from any changes in future funding of this specific nature, authority was delegated to the Director for Adult Social Care & Health, in consultation with Chief Financial Officer (CFO) and the Head of Legal, HR & Democratic Services, to act without any further approval by Cabinet, including adding any such sums to the budget.

PUBLIC HEALTH

37. The Local Authority formally takes on the public health responsibility from April 2013 as set out in the Health and Social Care Act 2012. A new ring-fenced grant will be received in 2013/14 to support the Council's Public Health responsibilities being transferred from the PCTs. Notification of the amount of this Grant was received on 10 January 2013 and set out allocations for 2013/14 and 2014/15 in order to provide greater certainty and assist planning.
38. The size of the grant has been set taking account of estimates of baseline spending, including from PCT recurrent resources and non-recurrent resources, such as the pooled treatment budget and drugs intervention programme, and a fair shares formula based on the recommendations of the Advisory Committee for Resource Allocation.

The funding made available to the Council is £14.3M and £15.1M in 2013/14 and 2014/15 respectively and will be incorporated into the Adult Services Portfolio. At this stage it has been assumed that the amount of this ring fenced grant will meet the cost of providing the transferred service and therefore will not have any impact on the Council's total net revenue budget requirement.

39. The grant has been made under Section 31 of the Local Government Act 2003 and conditions have been set out to govern its use. The primary purpose of the conditions is to ensure that it is spent on the new Public Health responsibilities being transferred from the NHS to local authorities, that it is spent appropriately and accounted for properly. The expectation is that funds will be utilised in-year, but if at the end of the financial year there is any under spend this can be carried over, as part of a specific Public Health Reserve, into the next financial year. In utilising those funds the next year, the grant conditions will still need to be complied with. However, where there are repeatedly large under spends the Department will consider whether allocations should be reduced in future years.

FORECAST ROLL FORWARD BUDGET 2013/14

40. The report to Cabinet on 20 November 2012 identified a roll forward gap for 2013/14 of approaching £20.2M after taking account of pressures but before any further initiatives or savings were taken into account. This figure has now been updated 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. The revised roll forward gap is £16.0M, and the reasons which underpin this revised position are set out below.

Provisional Local Government Settlement

41. The Comprehensive Spending Review (CSR) released in October 2010 and the detailed Local Government Finance Settlement confirmed the unprecedented reductions in Local Government Funding over the next four years, which were front loaded. The grant settlement initially covered 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.
42. Uncertainty was heightened for the remainder of the CSR as the financial year 2013/14 was to see a number of fundamental changes including:
- The retention of Business Rates and the extent to which Local Authorities may benefit or lose from increases / decreases in Business Rate growth.
 - The localisation of support for Council Tax including an associated 10% reduction in funding.
 - The transfer of Public Health, and its associated funding, to Local Authorities.
 - The introduction of Police Commissioners from November 2012 and the associated transfer of crime prevention responsibilities from Local Authorities.

In addition, it was difficult to predict the future of health funding which is allocated to Local Government beyond 2012/13 but it was assumed that this would continue in line with the indicative levels set out in the CSR.

43. No detailed figures were available for 2013/14 and beyond and given this level of uncertainty, in calculating an indicative Council Tax for 2013/14 it had been initially assumed that the figures for National Non-Domestic Rates (NNDR) and Revenue Support Grant (RSG) would reduce by 7%. However, in the light of the information set out in the publication by the Department for Communities and Local Government (CLG) entitled "Business Rates Retention – Technical Guidance" this was subsequently reduced downwards by a further £1M, effectively allowing for an 8% reduction in government grant funding.
44. The provisional Local Government Finance Settlement for 2013/14 was received on 19 December 2012 and has been updated twice since in early January. The provisional settlement position after also allowing for the impact of grants transferring into formula grant and consequent changes in expenditure improved by £5.8M compared to that previously used for planning purposes and reported in November.
45. A summary of the changes is set out below and further detail is provided in Appendix 4:

	November Position	Updated Position	Change
	£M	£M	£M
Non-Ring Fenced Grants	(18.1)	(17.8)	0.3
Formula Grant	(91.5)	(92.9)	(1.4)
New Homes Bonus	(2.7)	(2.6)	0.1
Council Tax Benefit Support	(14.0)	(14.3)	(0.2)
Grant Impact	(126.3)	(127.5)	(1.2)
Changes in Expenditure		(1.8)	(1.8)
Subtotal	(126.3)	(129.4)	(3.1)
Additional Retained Business Rates		(2.7)	(2.7)
Total	(126.3)	(132.1)	(5.8)

Social Fund

46. Discretionary elements of the Social Fund will be abolished by the Welfare Reform Act (2012) in April 2013. This was previously allocated to the Department for Work and Pensions (DWP) to support Crisis Loans and Community Care Grants. In future, the DWP will be signposting people who need emergency financial assistance to local authorities. The DWP will continue to manage payment in advance for first-time claimants where required.

47. As part of the Local Government Settlement the Council's funding in respect of this new burden which will be in the form of a non-ring fenced grant for a two year transition period was also announced. The allocation for 2013/14 is £654,200, and the indicative amount for 2014/15 is £644,700. Funding beyond this is subject to the next spending review.
48. The transfer of this responsibility to the Council takes place within the context of a wide range of welfare reforms. In response to this, a Scrutiny Inquiry (Scrutiny Panel A: Welfare Reforms Inquiry) has been set up to:
- Understand the timetable of welfare reforms and how the local impact can be assessed as part of council decision making
 - Consider duties and responsibilities under the new legislation and identify opportunities for the co-ordination of current and future service delivery
 - Identify opportunities for policy development, with a particular focus on helping people into employment and tackling family breakdown

49. OSMC approved at their meeting on 24 January 2013 the following recommendations from Scrutiny Panel A: Welfare Reforms Inquiry:

RECOMMENDATION 1:

That the amount transferred to the Council for the transition of the Social Fund for 2013/14 and 2014/15 is allocated solely for the use of developing local welfare provision.

And if Recommendation 1 is approved:

RECOMMENDATION 2:

- i) To delegate authority to the Senior Manager, Communities, Change and Partnership, following consultation with the Cabinet Member for Communities, the Cabinet Member for Resources and the Chair of Scrutiny Panel A, to develop and implement a sustainable and holistic mixed model approach to local welfare provision. The scheme should harness existing provision to enable residents vulnerable to financial crisis to become more self-reliant whilst building the capacity of the voluntary sector.
- ii) The local welfare scheme for Southampton should be a phased and tiered approach, co-ordinated by the city council, supported by a multi-agency, advisory group and include the following principles:
 - A mixed model of support will be established, with a combination of in-house and external provision.
 - Support to be led by agency referral with mechanisms in place for direct access.
 - In-kind support will be the main mechanism for help with limited cash provision in emergencies.
 - Where small cash payments are provided this will usually be in the form of affordable loans.
 - A contingency fund of £100k is set aside and used to respond to unpredicted gaps in provision.
 - The delivery model should minimise central administration costs.

RECOMMENDATION 3

That a Welfare Reforms overarching body, involving Members, is established for the 2 year transition period to:

- Monitor the impacts of the Welfare Reforms to ensure that the local welfare model continues to support those in financial crisis
- Consider and agree changes to the local welfare provision, including allocation of any contingency fund approved, following recommendations from a multi-agency advisory group

RECOMMENDATION 4

That Cabinet, in considering the Council's budget for 2013/14 give priority, at least for the next two years whilst the Welfare Reform changes are implemented and to allow time for the economic climate to improve, to provide additional funding to increase capacity in voluntary organisations offering:

- a) Financial advice, budgeting and support
- b) Vulnerable residents, especially those on long-term benefits, opportunities to improve their chances of getting a job

50. The Executive's proposed budget as set out in this report has taken into account the recommendations of Scrutiny Panel A: Welfare Reforms and the amount transferred to the Council for the transition of the Social Fund for 2013/14 and 2014/15 is to be allocated solely for the use of developing local welfare provision.

Business Rates

51. The Government funding system for local authorities has changed significantly since 2010. The system is complicated and it can be argued this lack of transparency hides the significant cuts that local authorities have been subject to over recent years. One of the most fundamental changes is the introduction of a Business Rates Retention (BRR) Scheme as a replacement for the Council's main Revenue Formula Grant from Central Government and a large element of the improvement resulting from the provisional settlement relates to assumed additional income following the introduction of this new scheme.
52. However, this new system of BRR also introduces significant new risk along with the opportunity for reward, as any reduction in the level of business rates collected below the level assumed in the budget, will directly impact on the Council's bottom line through reduced income. Further information is set out in Appendix 4.

Local Government Settlement

53. 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 if necessary in a revised budget proposal for the Council meeting on 13 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.

In the event that this is not possible then a contingency has been provided for in the budget of £250,000 which can be drawn on if deemed necessary.

54. 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 2013/14 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 £5.5M.

Council Tax

55. The council tax base for 2012/13 has been set at 55,471.7 properties using delegated powers granted by Council on 17 January 2007. This is in line with the position assumed in November and reflects the required adjustments as a result of the localisation of Council Tax Benefit and the changes to associated funding which serve to reduce the tax base.
56. New regulations contained in the Local Government Finance Act 2012 allow the Council to make significant changes to the discounts and exemptions that are currently offered on Council Tax. The draft budget set out proposals for the policy for discounts for empty homes (to replace the existing Class A and Class C exemptions), long term empty homes and second homes which it was estimated would deliver additional Council Tax income of £0.5M. Council approved these changes on 16 January 2013 along with the introduction of a discretionary hardship relief scheme to be implemented from 1 April 2013 and the final impact which has now been built into the roll forward position is £487,400.
57. In the draft budget it was proposed that the previously approved Older Persons council tax discount of 10% for households where all occupants are over 65 and the 100% discount for Special Constables were not continued in 2013/14 and beyond. Council approved the removal of these discounts on 16 January 2013 and the resultant saving of £1M per annum which was built into the draft position has therefore been delivered.
58. Central Government is transferring the responsibility for providing Council Tax Benefits to Local Authorities as from 1 April 2013. Currently Central Government set the criteria for Council Tax Benefits and fund 100% of the cost. Under the new arrangements, Councils will set their own local Council Tax Support scheme offering reduced Council Tax for those eligible. However, the Council will receive 10% less from central government to fund the new scheme and there will be additional costs in collecting the tax.
59. On 16 January Council approved a long term scheme which is self funding and to achieve this reduces the support given to working age people by 25%. However, for 2013/14 Council approved a transitional scheme which mitigates the impact in this first year and takes advantage of a one off transitional grant offered to councils for 2013/14 only by the Government for introducing what they consider to be "well designed schemes. The transitional grant that the Council will receive of £378,800 will not meet the full cost of the transitional scheme. The additional cost once the grant is taken into account is estimated to be £918,900 compared to the original estimate, (before taking into account changes though the settlement to assumed funding for Council Tax Benefit localisation), and has been built into the roll forward position.

The Risk Fund and Pressures

60. The budget within the Children's Services Portfolio for children's safeguarding is under pressure due to an increase in the number of children in care and the cost of additional staffing resources within the service and associated areas providing support such as Legal Services. Budget provision in 2013/14 has been reviewed as part of the development of the budget and additional funding has been allocated in the medium term. In the longer term the service have developed a strategy to manage the pressures that are being experienced. In the light of these pressures and the longer term strategy, the Risk Fund has been increased by £0.7M for 2013/14 and the level of funding for pressures has been marginally reduced by £36,000.

Weekly Collection Support Scheme Bid

61. At the time of the publication of the draft budget in November the Council were awaiting the outcome of a bid submitted to the CLG for funding of £8.3M from the £250M available through the Weekly Collection Support Scheme. The results which were due to be announced by the CLG in October were delayed until later in November but the Executive's clear preference was to retain the weekly refuse collection service which this bid would enable. The final announcement by the CLG awarded the Council funding for the full value of the bid submitted which will enable net revenue support of £417,000 in 2013/14 rising to £834,000 in 2014/15.
62. In recognition that the Council needed to make significant savings the draft savings proposals included an item (Reference E&T 28) to introduce alternate weekly collections if the bid was unsuccessful as the additional cost of this service is more than £0.8M per annum. In the light of the success of the bid this proposal has been withdrawn.

Detailed Estimates Changes and Net Interest Payable

63. Other changes in the detailed estimates submitted by Portfolios and Trading Areas have also been reflected in the figures and show a small adverse variance however, this is more than offset by the favourable impact of reduced interest payable. Since November changes have been made to a number of key variables which impact the forecast of net interest payable. These include changes as a result of the Capital Programme update which is to be presented to Council on 13 February, an updated assessment of the outlook for interest rates and an assumption that in year borrowing will be delayed and will ultimately be based on taking further short term variable rate debt which remains available at lower rates than long term fixed rate debt due to the depressed market.

Addition to Balances / Transformation Fund

64. There is still a considerable amount of transformational change that will need to occur at the same time as maintaining "business as usual" as the Council addresses the sustainable changes demanded in the next few years to ensure the long term viability of service provision. The forecast position currently allows for a contribution to be made to the Transformation Fund in 2013/14 of £1.0M which was not assumed in November and which will help provide capacity and investment where required to take forward this agenda.

65. In the light of the financial challenge facing the Council in 2014/15, and recognising that transformation change takes time to deliver, the current roll forward forecast also assumes an addition to balances of £4.6M which is almost £1.7M more than assumed in November, and which can be used in future years or to progress initiatives.
66. The table below shows these net changes in the overall forecast position:

	£000's
Forecast Deficit in November Cabinet Papers	20,169.1
Net Impact of Provisional Local Government Finance Settlement	(5,807.8)
Council Tax - Changes to Discounts and Exemptions	(487.4)
Council Tax - Removal of OAP and Special Constable Discount	(1,000.0)
Council Tax - Benefit Reduction Scheme (Cost of Transitional Scheme)	918.9
Increased Risk Fund	700.0
Reduction in Pressures	(36.0)
Waste Grant	(417.0)
Detailed Estimate Changes and Net Interest Payable	(680.2)
Addition to Balances	1,663.4
Addition to Transformation Fund	1,000.0
Revised Forecast Deficit	16,023.0

67. In arriving at this 'base' position a number of one off funding sources have been utilised which total almost £6.1M. These include contractual savings from the Street Lighting PFI project (£0.8M), the 2011/12 Collection Fund surplus (£1M), a reduction in the contribution to reserves (£0.2M), a one off saving from the Capita contract (£2.8M) and the utilisation of the estimated New Homes Bonus for 2013/14 (£2.7M). These one off elements, whilst serving to reduce the gap in 2013/14, by their very nature do not positively impact on the medium term financial position. In order to make provision for future years this use of one off funding has been reduced from the position as set out in November when the total stood at £7.8M by the increased addition to balances of almost £1.7M
68. This position shown in the table above represents the 'base' position from which all four 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 2013/14.

RISK BASED CONTINGENCY FUND

69. In 2008/09 the Council established the Risk Fund as a financial planning mechanism to manage volatile risks within the budget. The Risk Fund includes a number of pressures which are volatile in nature, and which cannot be forecast accurately until data is collected during the financial year on the level of activity and costs (for example increasing numbers of older persons affecting care budgets).
70. The establishment of the Risk Fund means that not all the funding set aside to cover the estimated implications of pressures is allocated to Portfolios prior to the start of the financial year, but is retained centrally. The individual items retained within the Risk Fund are also risk adjusted, to reflect the fact that not all the volatile pressures will fully materialise during the year.
71. A sum of £5.8M is included in the budget for 2013/14, (an increase of £0.7M compared to the draft position presented to Cabinet in November 2012), to cover these pressures and will only be released during the year if evidence is provided to substantiate the additional expenditure against the specific items identified.

REVENUE PRESSURES

72. 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 contractual changes, which have a direct impact on costs (e.g. increase in service specification), 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.
73. Pressures which services are required to address outside of the Risk Fund mechanism totalling £2,211,000 are being recommended for 2013/14 and are detailed in Appendix 5.

REVENUE BIDS

74. 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 service generated bids have been progressed for 2013/14.

INITIATIVES

75. 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. No new revenue developments have been specifically included for 2013/14. However, the Executive have added funding to the Leader's Portfolio to provide investment for a number initiatives in 2013/14 and future years with the aim of "Getting Our Economy Moving". This funding which totals £0.5M will be allocated as initiatives are developed.

EFFICIENCIES, INCOME AND SERVICE REDUCTIONS

76. For the purposes of considering an overall budget package, it should be noted that the roll forward budget includes a 3% vacancy factor built in to all salary budgets as well as the ongoing effects of savings identified in previous budget rounds.
77. In arriving at the 'base' position presented in November it was recognised that a number of one off funding sources had been utilised which totalled almost £7.8M. Since that time the level of one off funding has been reduced as a further addition to balances of £1.7M has been made as set out in paragraph 65. However the one off funding of £6.1M which is being utilised in the setting the budget is still effectively contributing more than 25% of the savings required to close the gap and balance the budget position in 2013/14.
78. The 20 November Cabinet report set out draft budget proposals for consultation and at that point included efficiencies, income generation and service reductions to the value of almost £18.1M. This level of savings, along with proposed changes to Council Tax discounts, went most of the way towards bridging the draft budget gap which at that point in time was approaching £20.2M. The changes summarised in paragraph 66 reduced this gap to £16.0M, and this is the level of savings therefore required to balance the draft budget for 2013/14 at an assumed council tax increase of 1.9% before any bids or initiatives.
79. In terms of closing the budget gap and setting a balanced budget, the Executive's recommendations for efficiencies, income generation and service reductions now total over £16.5M and are set out in detail in Appendix 6.

STAFFING IMPLICATIONS

80. The City Council employs more than 3,900 FTE of non school staff of which approaching 3,250 FTEs are funded by the General Fund, and staffing costs constitute a significant element of overall expenditure. Given that this is the case, it is inevitable that when the Council is faced with such a significant funding shortfall, that the savings proposals put forward by the Council will have an impact on staff cost and staff numbers.
81. Aware of this fact, the Council has continued to have in place a carefully planned approach to recruitment, ensuring that vacant posts have only been recruited to where absolutely necessary.
82. This proactive approach has meant that the Council has been able to hold a significant number of posts vacant which can now be deleted in order to make savings as part of the budget process. The deletion of vacant posts reduces the impact on staff in post and reduces the actual number of employees who will be made redundant.
83. Based on the savings proposals contained in this budget report 234.3 FTE posts are affected of which 84.66 are currently vacant and 149.64 are in post and are at risk of redundancy and up to 261 individuals are impacted. The FTE at risk of redundancy represents less than 4.0% of the overall FTEs employed and is 64.04 FTE lower than the figure anticipated in November.

84. Through the consultation process the Executive have been keen to explore all avenues with the Trade Unions and staff to identify wherever possible alternative options for delivering savings, in order that the level of proposed staffing reductions and redundancies can be reduced. The consultation has been extended to 9 February and any changes made after publication of this report will be highlighted to Council on 13 February 2013.
85. The Executive will also continue to ensure that impacted staff are aware of all the available options which can be used to avoid compulsory redundancies and this will include:
- Early retirement,
 - Flexible retirement,
 - Voluntary redundancy and
 - Reduced hours.
86. In addition, the City Council has an excellent past record of using its redeployment policies to minimise any compulsory redundancies arising out of the budget proposals, and the Executive will seek to strengthen the support for employees who find themselves on the redeployment register as a result of savings implemented as part of the 2013/14 budget.
87. Moving forward, the Executive remain committed to minimising job losses within the Council, and this is reflected in the proposals to reduce redundancy costs in order to further minimise the impact on jobs in 2013/14 and beyond

SOUTHAMPTON TRANSITIONAL EMPLOYMENT PLAN (STEP)

88. Moving forward, the Executive remain committed to minimising job losses within the Council, and in September they approved the continued development of the Southampton Transition Employment Project (STEP). The full report is available at the link below (Agenda Item 49):
<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=126&MId=2224&Ver=4>
89. STEP will provide a holistic approach to the retention, redeployment and recruitment of staff and the use of agency and temporary staff. The purpose of the project is to implement improved measures for staff that are displaced in the organisation by ensuring that they are given priority when vacancies arise and by providing an enhanced level of training, assistance and other options.
90. Funding for the initial stage of the project has been allowed for in 2012/13 and it has been assumed that the financial implications beyond that point are neutral to the previously assumed position. This will need to be closely monitored and any change to this assumed position will need to be taken into account in the development of the budget for future years.

PROPOSED BUDGET PACKAGE

91. 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. The proposals are based on a Council Tax increase of 1.9% and include an addition to balances of £4.6M

	£M
Total GF Spending (After Addition to Balances & Pressures)	86,072.1
Initiatives – “Getting Our Economy Moving”	500.0
Efficiencies, Income and Service Reductions (Appendix 6)	(16,523.0)
Council Tax Requirement	70,049.1

92. Any changes made to this proposed budget package, for example in response to the ongoing consultation with staff which will run until 9 February 2013, will be highlighted to Full Council on 13 February 2013.

COUNCIL TAX

93. The Executive are recommending a Council Tax increase of 1.9% for 2013/14. The Council Tax Requirement shown in Appendix 7, which takes into account Government Grants and an assumed surplus on the collection fund at the end of 2012/13 of more than £1.0M is the level of council tax required to provide a balanced budget for 2013/14. This is then divided by the council tax base set by the CFO, following consultation with the Cabinet Member for Resources, to give the basic amount of council tax for the year of £1,262.79, which is a 1.9% increase. The full calculation is set out in Appendix 8.
94. The estimates of the payments from the Collection Fund in the form of precepts for 2013/14 are set out in Appendix 9. This includes preliminary figures for the Police and Fire authorities, for whom proposed council tax increases of £5 for a Band D property and zero percent respectively have been assumed. The Appendix therefore shows that when these items are added to Southampton’s council tax, the overall percentage increase rises from 1.9% to 1.98%. These figures will not be confirmed until the budget setting day at Full Council on 13 February 2013.

CAPITA – STRATEGIC SERVICES PARTNERSHIP (SSP)

95. The Corporate Services Management Team have been actively working with our partners Capita to consider how to both deliver savings as part of the budget process and also to improve the long term flexibility and governance of the SSP.

96. As set out in the draft budget report in November , the base budget position includes a one off saving of £2.8M achieved through the pre-payment of £17.1M to Capita in 2012/13, allowing them to achieve financing savings, the benefit of which flows through to the Council in 2013/14. The pre-payment will be written down over the remaining life of the contract.
97. In addition to this a number of savings proposals have been developed which will contribute £700,000 in 2013/14 and £400,000 in future years (Reference RES 3) and these include:
- Review of fibre refresh costs within the contract.
 - Change to contact centre opening hours.
 - Changes in the Council Tax & Benefits service.
98. Alongside this work, longer term proposals are being explored which include the option of a five year extension to the contract which may offer greater potential savings to the Council. Initial indications are positive and the Executive (with the support of their Group) are working actively with Capita to develop these longer term aspirations. Whilst this is a complex piece of work it is the intention of the Executive to bring proposals for a contract extension to Cabinet and Council in 2013/14 once adequate information is available to inform effective decision making.

GENERAL FUND BALANCES

99. 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 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.

100. 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
101. This calculation is reviewed annually and updated to reflect current levels of expenditure and income and treasury management operations and also new considerations such as partnership arrangements.

This level has been reviewed this year and in recognition of the significant new risks facing the Council (in particular the introduction of the BRR Scheme and a local Council Tax Reduction Scheme) the CFO has recommended that the minimum level of balances is increased from £5.0M to £5.5M in line with good practice guidance.

102. The table below shows the position for balances after taking into account the outturn for 2011/12, the estimated outturn for 2012/13, the budget proposals set out in this report and the current update of the capital programme.

	2012/13	2013/14	2014/15	2015/16
	£000's	£000's	£000's	£000's
Opening Balance	23,529.6	7,362.6	6,561.1	5,574.0
Draw to Support Capital	(312.6)	(210.0)		
(Draw to Support) / Contribution from Revenue	(2,982.2)	4,620.4	3,056.6	4,160.0
Contributions to / (from) Other Reserves	(1,300.0)			
Draw for Strategic Schemes	(11,572.2)	(5,211.9)	(4,043.7)	(4,234.0)
Closing Balance	7,362.6	6,561.1	5,574.0	5,500.0

103. The above projection includes an addition to the to the Organisational Development Reserve of £4.0M in each of the years from 2013/14 in order to ensure that adequate ongoing provision is made for the costs associated with the implementation of staff related savings.
104. The minimum level of balances is set at £5.5M and the above prediction indicates that this will be maintained in the medium term.

MEDIUM TERM FORECAST

105. A roll forward forecast has been estimated for 2014/15 and 2015/16 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 Management Board of Directors to pursue the development of future years options highlighted in Appendix 7
106. The Comprehensive Spending review (CSR) was for the 4 year period 2011//12 to 2014/15 and in December the provisional settlement set out funding for Local Government for the final two year period of the CSR; (2013/14 and 2014/15). This settlement reflected the changes resulting from the Local Government Resource Review into the way that Local Government is financed.

Whilst the settlement announcement gives a degree of certainty, the changes, which include a system of locally retained business rate income, introduce significant new risks.

107. The next CSR period starts in 2015 and is likely to contain another round of significant cuts to Local Authority funding. Various professional bodies and associations quote the potential loss of grant funding between 25% and 40%. The exact timings of these further reductions are unknown at present. The potential impact of this for Southampton will form part of the thinking necessary around the sustainable changes which will need to be made in the next few years to ensure the long term viability of service provision.
108. For planning purposes, provision has been made within the current medium term forecast to manage this risk of reduced government grant with an assumption that there will be a further reduction in central government grant of 9% in 2015/16. This reflects an ongoing reduction which has averaged 7% per annum and an additional 2% reduction continuing that announced by the Chancellor in the Autumn Statement for 2014/15. There is a risk that the actual reductions in government grant will be in excess of 9% for 2015/16.
109. The effect on local taxpayers is also a critical element in making decisions on council tax levels, particularly given the legislation for Council Tax referendum contained in the Localism Act. The Localism Act abolishes Whitehall capping in England and puts local referendums in its place. If councils increase council tax above the level agreed by government, currently set at 2.0% for 2013/14, this will trigger a referendum and if people vote against the increase the local authority will have to revert to a lower council tax rise
110. Appendix 10 also includes an increasing sum for future options for efficiencies, income and service reductions in later years that the Management Board of Directors need authorisation to develop and progress. Future savings have also been included in the medium term forecast of £0.2M in 2014/15 rising to more than £1.9M in 2015/16. These items are work in progress and will be further developed in the coming year.

RESOURCE IMPLICATIONS

Capital

111. The revenue implications of financing the General Fund Capital Programme are reflected in the 2013/14 estimates presented in Appendix 7.

Revenue

112. As set out in the report.

Property/Other

113. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

INTRODUCTION

114. It is important that Members are fully aware of the full legal implications of the entire budget and Council Tax making process, when they consider any aspect of setting the Council's Budget. Formal and full advice to all Members of the Council protects Members, both in their official and personal capacity, as well as the Council. If Members have received the appropriate professional legal and financial advice and act reasonably, generally the courts will not interfere in their decisions.

GENERAL POSITION

115. The first and overriding legal duty on Members is their fiduciary duty to weigh the needs of service users against the interests of local taxpayers. In planning the budget, Members are under a fiduciary duty to act prudently, responsibly, in a businesslike manner and in their view of what constitutes the best interests of the general body of local taxpayers. In deciding upon expenditure, the Council must fairly hold a balance between recipients of the benefits of services provided by the Council and its local taxpayers. Members should note that their fiduciary duty includes consideration of future local taxpayers as well as present local taxpayers.
116. There is a general requirement in administrative law that a local authority decision must be rational, authorised by law and must take account of all relevant considerations, whilst ignoring any irrelevant ones. It should also be noted that the concept of proportionality, given great emphasis in the Human Rights Act 1998, is also becoming a relevant factor for determining the reasonableness of any decision and should be borne in mind by Members.
117. An authority commits an illegal act if it acts beyond or in abuse of its statutory powers or in breach of its fiduciary duty. It will also act illegally if it fails to take relevant considerations into account or acts in outrageous defiance of reason

OBLIGATION TO MAKE A COUNCIL TAX

118. The legal significance of the Annual Budget and setting a Council Tax derives from the Council's duty under the Local Government Finance Act 1992 (the 1992 Act) to set a balanced budget and Part 5 Chapter 1 of the Localism Act 2011. This is achieved by calculating the aggregate of:
- i. the expenditure it estimates it will incur in the year in performing its functions in the year (including an allowance for contingencies),
 - ii. the payments it estimates it will make in the year in defraying expenditure already incurred and
 - iii. expenditure it will incur in funding costs before a transfer of funds is made from the Collection Fund and then deducting such sums as will be paid into the General Fund, (i.e. income). Calculations made under this section must be made before 11 March in the preceding financial year.

119. In order to fulfil this duty, the Council must prepare detailed estimates of its expenditure for the coming year and of the resources which will be available to meet this expenditure. Account must be taken of any deficit brought forward from a previous year and the amount needed to cover contingencies. The resources include income from rents, fees and charges and any available balances. All of these issues must be addressed in the budget report. The estimation of the detailed resource and expenditure items is the main reason for the budget process. The budget must balance, i.e. proposed expenditure must be met from proposed income from all sources, with any shortfall being the precept on the Collection Fund.
120. Failure to make a lawful Council Tax on or before 11 March could have serious financial results for the Council and make the Council vulnerable to an Order from the Courts requiring it to make a Council Tax.
121. Section 151 of the Local Government Act 1972 places a general duty on local authorities to make arrangements for 'the proper administration of their financial affairs'.
122. Information must be published and included in the Council Tax demand notice. The Secretary of State has made regulations, which require charging authorities to issue demand notices in a form and with contents prescribed by these regulations.
123. There is also a duty under Section 65 of the 1992 Act to consult persons or bodies appearing to be representative of persons subject to non-domestic rates in each area about proposals for expenditure (including capital expenditure) for each financial year.
124. In order to fulfil this duty, the Council must prepare detailed estimates of its expenditure for the coming year and of the resources which will be available to meet this expenditure. Account must be taken of any deficit brought forward from a previous year and the amount needed to cover contingencies. The resources include income from rents, fees and charges and any available balances. All of these issues must be addressed in the budget report. The estimation of the detailed resource and expenditure items is the main reason for the budget process. The budget must balance, i.e. proposed expenditure must be met from proposed income from all sources, with any shortfall being the precept on the Collection Fund.

DEFICIT BUDGETING

125. A deficit budget, one which does not cover all anticipated expenditure with resources reasonably expected to be available, is unlawful. Any Council Tax which rests on such a budget will be invalid. Councils are constrained to make a Council Tax before all the separate elements, which will constitute available resources or anticipated expenditure, have been identified and quantified fully. Best estimates have to be employed.
126. Where these best estimates include sums for unallocated savings or unidentified expectations of income, extreme care must be taken to ensure that the estimates are reasonable and realistic and do not reflect an unlawful intention to incur a deficit.

It might be appropriate at budget setting time to require regular monitoring throughout the financial year of such estimated savings or income. Prompt action to reduce spending must be taken, if at any stage it seems likely that a balance between income and expenditure will not be achieved.

BORROWING

127. The rules and regulations governing a local authority's ability to borrow money were altered significantly by the introduction of the Local Government and Housing Act 1989 and subsequent regulations. This has now been abolished and replaced by the self regulating Prudential Code.

OTHER RELEVANT LEGISLATION

128. The Local Government Finance Act 1988 (the 1988 Act) created the (now repealed) Community Charge and the current National Non- Domestic Rating regime and deals with grants, funds, capital expenditure and the financial administration of a local authority.
129. Under Section 114 (2) and 114 (3) of the 1988 Act, the CFO is required to make a report, if it appears to him/her that a decision or course of action the Council or an officer has agreed or is about to make is unlawful, or that expenditure is likely to exceed resources available.
130. Members have a duty to determine whether they agree with the CFO's statutory report issued under Section 26 Local Government Act 2003. If Members were to disagree, they would need to set out cogent reasons for so doing. Unless such reasons could be set forward, Members' action in disagreeing with the CFO's views on the basis of his/her professional judgement would be likely to be held unreasonable and constitute wilful misconduct. It should be noted that under the Members' Code of Conduct, Members are required to take account of any advice issued by CFO (and the Monitoring Officer) acting in their statutory capacities.
131. The Localism Act 2011 contains provisions (Part 5, Chapter 1) which relate to the setting of Council Tax, including the arrangements for Council Tax Referendums.

BEST VALUE: LOCAL GOVERNMENT ACT 1999

132. The Local Government Act 1999 (the 1999 Act) introduced a duty of Best Value, which came into force on 1 April 2000. Members need to be aware of and take account of the impact on the Council of this duty.

THE CONSTITUTIONAL POSITION: LOCAL GOVERNMENT ACT 2000 (THE 2000 ACT)

133. The 2000 Act has had a fundamental effect on the governance of the Council and in particular has resulted in a change to the working arrangements of Council, with the requirement for a Constitution setting out executive (Cabinet) and scrutiny and overview arrangements. The 2000 Act also provides a power for Councils to promote the economic, social and environmental well-being of their areas and develop community strategies. In addition, the 2000 Act establishes an ethical framework.
134. Of particular importance to the Council Tax setting process and Budget Meeting of the Full Council is the Council's Budget and Policy Framework Procedure Rules set out in Part 4 of the City Council's Constitution. These provide a legal framework for the decision making process whereby the Budget of the City Council is determined, and the Council Tax is set. In addition, Members need to be aware that these Rules provide a route whereby the Leader may require the Full Council to reconsider their position if they do not accept the Executive's recommended budget without amendment.
135. In addition, the Constitution contains a range of further material relevant to the setting of the Council Tax and the Budget Setting meeting:
 - i. Article 12 contains guidance on decision making and the law;
 - ii. The Council Procedure Rules in Part 4 regulate the conduct of the Full Council meeting (although traditionally, some of the rules relating to the conduct of the debate are suspended to allow different arrangements during the budget debate);
 - iii. The Members' Code of Conduct must be followed by Members; andThe Officer/Member Protocol contains guidance both on pre-budget discussions, but also on how officers and Members should interact with specific guidance about budget preparation issues.

PERSONAL LIABILITY AND SURCHARGE

136. The 2000 Act abolished the local government surcharge provisions and replaced them with a new statutory offence of 'misuse of public office'. This new statutory offence covers two situations, namely unlawfully incurring expenditure or incurring expenditure as a result of wilful misconduct. It also covers the exercise of a public function in a manner that involves dishonesty or oppression or malice. The Courts (rather than the District Auditor) would impose penalties. The Council could sue for losses/deficiencies sustained.

LEGAL STATUS OF POLITICAL PROMISES AND DOCUMENTS

137. It is appropriate for Members to consider their own position as some Members may have expressed support publicly for policies that are not policies of the Council.
138. Political documents do not represent a legal commitment on behalf of the Council.

To treat any political document as a legal commitment by the Council would be illegal. Where there is a valid choice before Members, then, at that stage and only at that stage, Members may take political documents into account.

139. All decisions must be taken within the framework of the formal decision making process of the Authority. Members must take into account all relevant matters and disregard all irrelevant ones. Decisions taken at a political meeting, such as a political group meeting, have no status within this process. A Member, who votes in accordance with a group decision which has been reached, having regard to relevant factors and who has addressed their mind independently to those factors and to the decision itself, will be acting within the law.
140. The Courts have also advised on the balancing exercise to be undertaken by a Council when deciding whether to pursue a particular policy:

A local authority must exercise its statutory powers in the public interest and for the purpose of which those powers have been conferred. Political views, as to the weight to be attached to the various relevant considerations and as to what is appropriate in the public interest in the light of those considerations, may properly influence the exercise of a statutory discretion. A decision will not be unlawful merely because some political advantage, such as electoral popularity, is expected to flow from it, so long as the decision is made for a legitimate purpose or purposes. Because at some stage in the evolution of a policy an improper political purpose has been espoused, does not mean that the policy ultimately adopted is necessarily unlawful. However, a political purpose extraneous to the statutory purpose can taint a decision with impropriety. Where there is more than one purpose:-

- a) The decision will generally be lawful provided that the permitted purpose is the true and dominant purpose behind the act. This is so even though some secondary or incidental advantage may be gained for some purpose, which is outside the authority's powers.*
- b) The decision will be invalid if there are two purposes one ultra vires and one intra vires and the ultra vires purpose is a (even if not the) major purpose of the decision. Accordingly a decision substantially influenced by a wish to alter the composition of the electorate would be unlawful.*
- c) Where there is some evidence justifying enquiry, the Court will consider whether an apparently lawful purpose e.g. home ownership is merely a colourable device to conceal an illegitimate purpose e.g. electoral advantage.*

Even if those voting for a particular policy at a Council meeting have perfectly proper reasons in mind, the policy can be tainted by the improper motives of others who have taken part in the formulation of that policy although not actually present to vote. As a matter of law it is possible for a corrupt principal to cause a result through an innocent agent.

Other Legal Implications:

141. The financial forecasts contained in this report have been prepared and are submitted as part of the budget process set out in the Council's Constitution. As part of the review process by the MBD, the proposals contained in this report have been checked from a legal viewpoint.
142. It should be noted by both Cabinet and Full Council that the decisions they are making, in terms of 'Budget setting' are effectively preliminary decisions, setting the framework for anticipated spending by the Council for 2013/14 to 2015/16. That framework and the matters set out in the budget influence and inform the strategic direction the Council will take during the budget period but specific proposals will require further implementation decisions (either at Cabinet or Officer decision levels as appropriate) in order to be given effect.
143. The Council, as the decision-maker, will take a preliminary decision in relation to its budget, fully aware that the implementation of proposed policies may have an impact on the affected users, but is not committing itself to the implementation of specific policies within the budget framework until it has carried out a full and detailed assessment of the likely impact as and where necessary. Those decisions will in turn address further equalities, consultation and practical matters without their outcome having been 'predetermined' by the approval of the budget.
144. Decision makers may also receive further representations, and/or choose to undertake further consultation on specific proposals. Decision makers will, as a result of further representations, consultation and other material considerations, be free to approve or reject implementation of specific matters proposed as part of the overall budget framework and it will, as a result, be for Council to determine how to meet any budget gap that may arise as a result of such implementation decisions.

POLICY FRAMEWORK IMPLICATIONS

145. The Medium Term Plan and the Budget are key parts of the Policy Framework of the Council and a Budget and Council Tax for 2013/14 must be proposed by the Executive (Cabinet) for consideration by the Full Council under the Constitution.

KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	ALL
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SUPPORTING DOCUMENTATION

Appendices

1.	Budget Consultation Report
2.	Equality Impact Assessments

3.	Revised General Fund Revenue Budget 2012/13
4.	Provisional Local Government Settlement
5.	Summary of Revenue Pressures
6.	Summary of Efficiencies, Additional Income and Service Reductions
7.	2013/14 General Fund Revenue Account
8.	2013/14 Council Tax Calculation
9.	2013/14 Collection Fund Estimates
10.	Medium Term Financial Forecast
11.	Statutory Power To Undertake Proposals In The Report
12.	Chief Financial Officers View On The Budget

Documents In Members' Rooms

1.	Budget Proposals - Equality and Safety Impact Assessment

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	Yes/No
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Other Background Documents

Equality 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.	GENERAL FUND REVENUE BUDGET 2013/14 TO 2015/16 – APPROVED BY CABINET ON 20 NOVEMBER 2012	
2.		

