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| | CABINET COUNCIL | | | |
| SUBJECT: | GENERAL FUND REVENUE BUDGET 2015/16 TO 2017/18 | | | |
| DATE OF DECISION: | 10 FEBRUARY 2015 11 FEBRUARY 2015 | | | |
| REPORT OF: | CABINET MEMBER FOR RESOURCES | | | |
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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 2015/16 and to outline the main issues that need to be addressed in considering the Cabinet's recommendations to Council on 11 February 2015.

RECOMMENDATIONS:

CABINET

It is recommended that Cabinet:

- a) Note the position on the estimated outturn and revised budget for 2014/15 as set out in paragraphs 21 to 24.
- b) Note the position on the forecast roll forward budget for 2015/16 as set out in paragraphs 34 to 77.
- 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 to finalise the Executive's proposals in respect of the Budget for 2015/16, in consultation with the Leader, for submission to Full Council on 11 February 2015.
- d) Approves and recommends to Council where appropriate, the General Fund Revenue Budget changes as set out in Council recommendations i-xviii

COUNCIL

It is recommended that Council:

- i) Notes the budget consultation process that was followed as outlined in Appendix 1 and notes that this year's process took into consideration feedback from last year on how to improve the process.
- ii) Notes that the consultation feedback has been taken into consideration by the Cabinet and has informed their final budget proposals.
- iii) Notes the Equality and Safety Impact Assessment process that was followed as set out in paragraphs 18 to 20 and the details contained in Appendix 2 which reflect the feedback received through the consultation process.
- iv) Approves the revised estimate for 2014/15 as set out in Appendix 3.
- v) Notes the position on the forecast roll forward budget for 2015/16 as set out in paragraphs 34 to 77.
- vi) Approves the revenue pressures and bids as set out in Appendix 4 and 5 respectively.
- vii) Approves the efficiencies, income and service reductions as set out in Appendix 6b.
- viii) Approves the General Fund Revenue Budget 2015/16 as set out in Appendix 7, which assumes a council tax increase of 1.99%.
- ix) Delegates authority to the Chief Financial Officer (CFO) to action all budget changes arising from the approved pressures, bids, efficiencies, income and service reductions and incorporate any other approved amendments into the General Fund estimates.
- x) Notes that after taking these items into account, there is an estimated General Fund balance of £9.6M at the end of 2017/18 as detailed in paragraph 114.
- xi) Delegates authority to the Chief Financial Officer, in consultation with the Head of Legal and Democratic Services, to do anything necessary to give effect to the recommendations in this report.
- xii) Sets the Council Tax Requirement for 2015/16 at £77.27M.
- xiii) Notes the estimates of precepts on the Council Tax collection fund for 2015/16 as set out in Appendix 9.
- xiv) Delegates authority to the Chief Financial Officer to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire Fire and Rescue Authority precept and the Police and Crime Commissioner for Hampshire precept.
- xv) Notes the Medium Term Financial Strategy as detailed in Appendix 10 including the Medium Term Financial Forecast in Annex A of this appendix.
- xvi) Approves the Reserves Policy as set out in the Medium Term Financial Strategy at Appendix 10.

- xvii) Approves the creation of a Medium Term Financial Risk Reserve with a contribution of £2.89M in 2015/16 and to delegate authority to draw on this reserve to the Chief Financial Officer and Chief Executive in consultation with the Cabinet Member for Resources as set out in paragraph 119.
- xviii) 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 6b for the financial years 2016/17 and 2017/18 and continue to develop options to close the remaining projected gaps in those years.
- xix) Approves entering in to an agreement with the Local Capital Finance Company and to approve a £20,000 investment in the Company in 2015/16 to enable SCC to have access to this competitive alternative borrowing source, as set out in paragraph 85.
- xx) Approves entering into a Section 75 (S75) of the National Health Service Act 2006 Partnership Agreement pooled fund, noting the minimum statutory requirement to pool £15.325m revenue (SCC contribution £5.085M) and £1.526m (all SCC contribution) capital as detailed in paragraphs 124 to 128.
- xxi) Note the actual S75 pooled fund to be set up will be an estimated £61M and approve a total SCC contribution of £5.3M revenue and £1.526M capital, from 1 April 2015.
- xxii) Approves, in conjunction with recommendation xxiii, the addition of the remaining budgets included within the schemes as per the Better Care Plan, into the pooled fund as and when appropriate, bringing the total value to approximately £132M (SCC contribution of £51M).
- xxiii) Delegates authority to the Director of People, following consultation with the lead Cabinet Member for Health and Adult Social Care, the Chair of the Health and Wellbeing Board and the Head of Legal and Democratic Services, to (a) agree the terms and conditions of the pooled fund agreement under S75 of the National Health Service Act 2006 and (b) to carry out any ancillary actions needed to give effect to this recommendation.

REASONS FOR REPORT RECOMMENDATIONS

1. The Constitution requires the Executive to recommend its budget proposals for the forthcoming 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 11 February 2015. 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 2015/16 for public consultation on 18 November 2014 and this was used as the basis for extensive consultation with a range of stakeholders.
4. The results of the consultation exercise were reported to the Leader and Cabinet Member for Resources prior to agreement of the Executive's final budget proposals which are now presented to Cabinet and Council.
5. The Cabinet Member for Resources led the consultation on the budget proposals supported by other Cabinet Members, the Council's Management Team (CMT), Heads of Service and staff in the Transformation and Performance Division. The consultation process ran for 12 weeks from 19 November 2014 to 10 February 2015 with the online questionnaire available for 9 weeks from 19 November 2014 until 21 January 2015. Any feedback received after the publication of this report will be reported directly to Cabinet and Full Council.

Consultation Process

6. In this difficult financial climate the Cabinet want to protect front line services as much as possible, become fit for the future and deliver a balanced budget. The scale of the challenges faced by the Council has meant that while the Cabinet wanted to encourage genuine ideas for achievable savings from everyone, they were keen to manage expectations. This is because decisions to protect one service will inevitably have an impact on another service.
7. 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 11 February 2015. The consultation process was centred on an online survey which was made available to residents, businesses, partners, community and voluntary groups and all council staff. Paper copies were placed in the city's libraries, GP surgeries, local housing offices and Gateway, the council's customer contact centre. The online questionnaire was promoted in various ways including using the council website, Stay Connected (the Council's email alert system) and through a network of partners and community groups.
8. Additional consultation activity included a community budget consultation meeting, working with partners and organisations directly affected by the proposals ensuring they were aware and had the opportunity to voice any concerns and suggest alternatives, and comprehensive staff consultation. This was in addition to the Council's decision making processes which include feedback from the Overview and Scrutiny Management Committee (OSMC) and Health Overview and Scrutiny Panel.
9. The Council worked closely with partners and organisations directly affected by the proposals ensuring they were aware and had the opportunity to voice any concerns and suggest alternatives. Comprehensive staff consultation was also undertaken by service managers, led by Human Resources. Details of the consultation process and feedback received are attached at Appendix 1.

10. The consultation aimed to explain the challenges faced by the Council and the reasons for the difficult financial position. It sought feedback on the proposals and alternative suggestions that could be considered when finalising the proposal. Given that the Council cannot afford to continue to do everything that it currently does and savings have to be made, the consultation process was designed for Cabinet and senior managers to hear views about:
 - The council's approach to delivering savings;
 - 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; and
 - Different ways the council could deliver services such as working with others, including partner organisations and local communities.
11. This year's budget consultation process built on the feedback received last year. The key points related to support for the additional explanation documents produced last year, accessibility of the budget information, poor attendance at area based meetings, more details required in the questionnaire and support for the more inclusive approach taken were taken on board in this year's consultation process. As a result, in addition to the budget tables, covering paper and equalities impact assessments that are produced every year, the supporting documents produced last year were retained and further developed.
12. The Overview and Scrutiny Management Committee (OSMC) discussed the budget proposals at their meeting on 13 November 2014. Specific information requested by OSMC was circulated to the Committee. In addition OSMC requested that the Cabinet Member for Resources gives consideration to the impact of the proposed £1M reduction in agency spend, overtime and vacancy management and reflects whether it should be located in the service reduction column rather than the efficiency column and this is now reflected in the report. At their 27th November 2014 meeting, the Health Overview and Scrutiny Panel (HOSP) discussed with the Cabinet Member the potential longer term impacts of the Health and Adult Social Care proposals but no specific recommendations were made at this meeting.

Consultation Feedback

13. To date, for the 2015/16 budget consultation just over 700 responses have been received. Of the total number of respondents, 17% of responses were from Southampton City Council staff, with 47% of the total number of respondents being female and 53% male. Overall the feedback welcomed the Council's approach and the opportunity to be involved in decision making. The questionnaire on the budget proposals was split into seven sections. Each section asked the extent to which the various proposals were supported and also gave the opportunity to comment on the proposal and provide alternative suggestions. There was also a further opportunity to provide comments at the end.
14. Overall, the Council's budget approach was supported and there was some recognition of the financial difficulties faced by the council. Positive and constructive feedback was also received from Health - Southampton City

Clinical Commissioning Group (CCG), Hampshire Constabulary, Hampshire Fire and Rescue Service, Southampton University Hospital NHS Foundation Trust. The summary of the feedback on the specific questions is detailed in the table below:

| Question | Strongly agree/ agree | Disagree /Strongly disagree |
|---|------------------------------|------------------------------------|
| What are your views on our overall approach to balancing the budget? | 51% | 15% |
| What are your views on our proposals for ASC – learning disabilities placements | 53% | 25% |
| What are your views on our proposals for housing related support? | 61% | 13% |
| What are your views on our proposals for children and family services? | 59% | 17% |
| What are your views on our proposals for community safety? | 34% | 37% |
| What are your views on our proposals for communities? | 38% | 33% |
| What are your views on our proposals for economic development? | 41% | 34% |
| What are your views on our proposals for regulatory services? | 62% | 11% |
| What are your views on our proposals for City Services? | 58% | 23% |
| What are your views on our proposals for waste collection and disposal? | 82% | 7% |
| What are your views on our proposals for highways and transport? | 60% | 16% |
| What are your views on our proposals for internal efficiencies – cost reductions? | 61% | 10% |
| What are your views on our proposals for internal efficiencies – management capacity? | 61% | 12% |
| What are your views on our proposals for internal efficiencies – contracts? | 69% | 8% |
| What are your views on our other proposals? | 71% | 10% |

Issues Raised

15. However, concerns were raised about several issues and these are detailed in Appendix 1. Cabinet have considered and reviewed proposals in response to

the consultation feedback. Key highlighted areas of concern in relation to the proposals in the written comments in the questionnaire were:

- the proposals may impact vulnerable people (adults and children's learning disabilities proposals, community safety, communities);
- Some of the proposals (e.g. community safety, communities) may result in increased costs to the Council or partners in the longer term;
- the importance of ensuring that renegotiated contracts don't define best value for money by only considering costs;
- the council should encourage contractors to pay the living wage; and
- the need to consider other options for public toilets including supporting local businesses to provide access to their facilities.

16. Other key comments and suggestions of areas where savings could be made included:

- Reducing the number of Councillors, frequency of elections and expenses;
- Currently weekly waste collection is not needed and the frequency should be reduced;
- Concerns about roads and potholes in the city;
- Support for the Council to further develop shared services;
- Reducing the number of managers employed by the Council and high salaries;
- Reducing consultants/interim managers;
- Concerns about air quality in the city;
- Desire for a staff suggestion scheme;
- Better signposting for tourists (including cruise ship passengers) within the city;
- Include the voluntary and community groups as part of the future solution; and
- Encourage citizens and businesses to be more socially responsible.

How the Consultation Feedback was used

17. In finalising their budget proposals, the Leader and Cabinet Member for Resources have taken into consideration the areas of concern and their response is detailed in Appendix 1. The main areas of concern relate to:

- Move to a fortnightly waste and recycling collection – The Council is currently in receipt of a government grant to maintain weekly bin collections. However, Cabinet will consider how to modernise the current service and how to further increase recycling as well as the option of alternate weekly bin collection if government funding for weekly collections is not maintained.
- The living wage – concerns were raised by residents about the effect on the salaries of contracted staff as a result of contract renegotiating and outsourcing. They felt that the living wage should be paid. Cabinet recognises the importance of the living wage and is keen to lead by example and have given a commitment to introducing the living wage for City Council staff. Cabinet are currently working with the unions on how this will be introduced and are working with other employers in the city to encourage them to sign up. They will also be looking at how the

Council's ethical procurement policy can be used to demonstrate its commitment to the living wage.

- Public Toilet Scheme – several respondents requested that the Council consider other options for public toilets particularly supporting local businesses to provide access to their facilities. If support can be generated from businesses for such a scheme the Cabinet would be happy to pursue this request further and propose to request Future Southampton to consider the issue.
- Road quality and potholes – The Council intends to significantly increase its expenditure on road resurfacing to more than £6M per year over the next three years, with a particular focus on residential roads.
- Shared services – there was a high level of support for the Council to look to developing shared services with other councils and partners across the region.
- Air quality in the City – A Member Panel is currently considering this issue and will be making recommendation to Cabinet in early summer this year.
- Staff suggestion scheme – The Chief Executive has recently introduced a staff engagement group called PULSE to better involve staff in decision making, get more detailed feedback on a range of issues and ultimately change the organisation for the better.
- Making the most of Tourism (including cruise ship passengers) - Southampton City Council's Arts and Heritage Team are working with Associated British Ports on a shuttle bus for transport passengers from the cruise ship terminal to the Sea City and Tudor House museums. Final confirmation that this will be rolled out is awaited from ABP as they are liaising with the liners directly.
- School learning disability services – Following consultation with the School's Forum there have been some changes to the this proposal. There will now be funding for a Southampton Special Educational Needs Outreach service to provide a free core offer to mainstream schools.
- Following consultation with the School's Forum there have been some changes to this proposal. There will now be funding for a Southampton Special Educational Needs Outreach service to provide a free core offer to mainstream schools. Schools will also be able to use their existing resources to purchase additional levels of Outreach support from this service as well as purchasing support from the council's Emotional Well-being Development Officers.
- The consultation feedback also included information on the impact of some proposals that had not previously been identified. This information has been reflected in the Equality and Safety Impact Assessments and in the Cumulative Impact Assessment published with the Council budget papers.

EQUALITY AND SAFETY IMPACT ASSESSMENTS

18. 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.

19. Individual Equality and Safety Impact Assessments (ESIAs) have been completed by Heads of Service for those proposals contained in Appendix 6b where it is felt that proposed savings could have an adverse impact on a particular group or individuals. 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 18 November 2014 and the impact assessments detailed in Appendix 2 reflect the feedback received to date.
20. The feedback from residents, partners, community groups and council employees on the potential impact on equalities groups and mitigating actions has been reviewed. As a result, the following ESIAs have been amended and Heads of Service are considering mitigating actions for these:
 - Efficiencies resulting from the integration of the Community Safety Team with Environmental Health
 - Low-level incidents may escalate if not dealt with.
 - Police spend time dealing with more low level incidents.
 - People may suffer from more anti-social behaviour.
 - Reductions in School Crossing Patrols (SCP)
 - Concerns that School Crossing Patrols will not impact on households equally.
 - Those both for and against SCP removal put child safety first.
 - May impact on road safety
 - Closure of Woolston and Portswood Public Toilets
 - Concerns for older people, disabled, children, pregnant women and those with medical issues if toilet provision removed.
 - Removing toilets will protect vulnerable people against being abused in these locations.
 - Many toilets are covered in graffiti, close and improve the public realm rapidly to prevent further decline of the neighbourhood.
 - Alternative offer of toilet provision to be well sign posted and accessible.
 - Deletion of the City Development Manager Post. No feedback received
 - Feedback relating to Economic Development included:
 - Long term impact on economic prosperity
 - Might mean reduced capacity to judge value for money of future project proposals or greater risks in projects in the future.
 - Areas of the city are run down and need developing. Who will focus on these areas if there is less resource put into development?
 - Loss of status for Southampton as an attractive place for businesses.

REVISED BUDGET & FORECAST OUTTURN 2014/15

21. This report is concerned mainly with the revenue estimates for 2015/16. However, there are elements of the 2014/15 estimated outturn, as detailed in Appendix 3, that will have an impact on the overall financial position. The latest position, as at Month 9, is that there is a forecast year end underspend of £0.779M (further information regarding this forecast position is set out in the Corporate Monitoring Report which is to be considered by Cabinet at its meeting on the 10th February 2015).
22. The forecast underspend is £0.0.695M which includes a potential carry forward of £0.084M.
23. The revenue budget for 2014/15 assumed a general draw of £6.97M would be made from balances to support the delivery of a balanced revenue budget. Assuming that the revised budget forecast of a net underspend of £0.695M is approved by Council on 11 February, the net draw made from balances to revenue will reduce by £0.695M. The table below summarises the main changes:

| | £M |
|--|----------------|
| Net Increase in Portfolio Costs | 3.262 |
| Net Decrease in Capital Asset Management | (1.600) |
| Additional Non-Specific Government Grants | (0.998) |
| Reduction in Risk Fund Provision | (1.359) |
| Reduction in Net Draw from Balances (General) | (0.695) |

24. Further information regarding the forecast outturn is set out below.

Portfolio Outturn

25. The forecast variance on Portfolio spend of £3.262M is set out in the table below:

| Portfolio | Baseline Forecast Outturn Variance £M | Risk Fund Items £M | Forecast Outturn Variance | |
|--------------------------|--|-----------------------|---------------------------|------------|
| | | | £M | % |
| Children's Services | 3.905 A | 0.795 F | 3.110 A | 7.8 |
| Communities | 0.102 A | 0.102 F | 0 | 0.0 |
| Environment & Transport | 0.016 F | 0 | 0.016 F | 0.1 |
| Health & Adult Services | 2.990 A | 0.645 F | 2.345 A | 3.7 |
| Housing & Sustainability | 0.223 A | 0.216 F | 0.007 A | 0.4 |
| Leader's | 0.340 F | 0 | 0.340 F | 7.2 |
| Resources & Leisure | 1.844 F | 0 | 1.844 F | 3.7 |
| Portfolio Total | 5.020 A | 1.758 F | 3.262 A | 1.7 |

Capital Financing Charges

26. The favourable variance of £1.6M is due to forecast interest payable being below that originally estimated, due to lower than anticipated borrowing costs, and forecast interest receivable being above that originally anticipated.
27. The cost of financing the authority's long term and short term debt in 2014/15 is currently forecast to be £1.9M less than budgeted, of which approximately £0.931M benefits the General Fund. This is mainly a result of variable interest rates being lower than estimated, no new long term borrowing being undertaken since 2013/14 and to deferring any new borrowing to later in this financial year than initially planned.
28. Investment income for the year is currently forecast to be around £0.651M higher than originally estimated.

Non Specific Government Grants

29. Additional non-specific Government grant income not included in the budget is anticipated resulting in a forecast favourable variance of £0.998M as follows:
30. The amount of Education Services Grant that the Council receives is primarily based on the number of pupils in maintained schools in the city. This number is continually updated as schools convert to academies. Based on known academy conversions this financial year, the amount forecast to be received in 2014/15 is expected to be £0.9M more than budget.
31. Remands allocation of £0.098M has been received from the Ministry of Justice.

Risk Fund Provision

32. Potential pressures that may arise during 2014/15 relating to volatile areas of both expenditure and income are being managed through the Risk Fund. An initial allocation of £4.4M was approved for 2014/15, and of this sum £3.117M

remains in the budget, following the allocation of £1.283M to portfolios, 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.

33. At Month 9, it is estimated that pressures within Portfolios will require the allocation of an additional £1.758M from the Risk Fund. This will result in an overall forecast favourable variance on the Risk Fund of £1.359M. It is assumed that this balance will be fully utilised to offset the net portfolio overspend in 2014/15. The provision made within the Risk Fund has been reviewed as part of the development of the budget for 2015/16 to ensure that a sufficient allocation is included for such pressures in the future.

FORECAST ROLL FORWARD BUDGET 2015/16

34. The report to Cabinet on 18 November 2014 identified a roll forward gap for 2015/16 of £14M after 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 that date, including the outcome of the provisional Local Government Finance Settlement. The revised roll forward gap is £9.854M (before bids), and the reasons which underpin this revised position are set out below.

Provisional Local Government Settlement

35. The Autumn Statement made by the Chancellor early in December contained a number of key announcements and whilst the impact on the Council's medium term financial position appeared to be limited, experience has shown that the devil is in the detail. The provisional Local Government Settlement was received on 18 December 2014 and provided clarity on the financial impact for 2015/16.

The closing date for responses to DCLG was 15 January 2015 and the final settlement is anticipated in early to mid-February.

36. The Provisional Local Government Finance settlement shows Southampton City Council has received a small increase in funding of £0.247M over and above the predicted allocations included within the Medium Term Financial Forecast for Revenue Support Grant (RSG) and the Business Rates Top Up. Whilst this is positive news it still reflects a loss of RSG of 28.5%.
37. However the settlement includes an element for the Local Welfare Provision of £0.485M, and if this is taken into consideration the position swings to a small like for like reduction of £0.238M.
38. In addition other grant allocations, for example Council Tax New Burdens and Local Reform and Community Voices, are showing a reduction in resources. Given that other grant allocations are reducing, in line with previous assumptions, it is proposed that no allocation is made for Welfare Provision as this funding is not new money and was not anticipated. Therefore the £0.247M increase has been taken into consideration in meeting the shortfall from other grants and closing the budget gap.

39. The key issues from the provisional settlement are listed below:

Key Issues:

- Local authorities increasing Council Tax by **2% or above** will be required to hold a local referendum. This applies to local authorities, fire authorities and police authorities.
- Local authorities freezing or lowering Council Tax level in 2015/16 will receive a Council Tax Freeze Grant equivalent to a 1% increase in Council Tax
- Council Tax Freeze Grant for 2014/15 is now included within the Settlement Funding Assessment for 2015/16.
- Rural funding has increased to £15.5m (previously £11.5m). This funding is now all within Revenue Support Grant (RSG) – previously, £9.5m was in RSG and £2.0m was paid as Rural Services Delivery Grant.
- A deduction of £23.4m has been made from RSG to fund the Improvement and Development Agency.
- The £9.4m in Efficiency Support Grant payments for 2014/15 will be rolled into the Settlement Funding Assessment for 2015/16.
- Revenue Support Grant was identified as including £129.6m for Local Welfare Provision. It is important to note that this is not new or additional funding. The DCLG have decided to split out an element of RSG to reflect what it believes should reflect Local Welfare Provision. However, this amount was previously paid as a Specific Grant in 2014/15, with no additional funding added to RSG for 2015/16.

The loss in funding as a result of the 2% cap on the 2015/16 Business Rates Multiplier (announced at Autumn Statement 2014) will be refunded to local authorities through a S31 grant payment (in the same way as the 2014/15 2% cap).

Impact on Southampton of the Provisional Local Government Settlement

40. The impact of the above on Southampton's overall settlement funding assessment is slightly worse than the national average being a reduction of 15.21% in comparison to 13.91%. This is largely as a result of Southampton not being affected by the areas where funding has been increased in the overall assessment in particular rural funding.
41. The Southampton reduction in spending power has been calculated at 3.1%, compared to the national reduction of 1.8%, however it should be noted that this calculation has been recognised by the LGA as being a flawed calculation mainly due to the inclusion of NHS funding for the Better Care Fund.
42. The Medium Term Financial Forecast included an assumption that the Revenue Support Grant was to reduce by 28.9%, based on the allocation received in the settlement the actual reduction is 28.5%.

43. The overall impact on the forecast revenue position is shown in table below:

| | Budget 2015/16 | Settlement 2015/16 | Difference |
|------------------------------|---------------------------|-------------------------------|-------------------|
| | £M | £M | £M |
| Revenue Support Grant | 42.212 | 42.473 | (0.261) |
| Business Rates Top Up | 1.623 | 1.609 | 0.014 |
| Net Impact of Changes | 43.835 | 44.082 | (0.247) |

44. In addition to the above, other changes have been made to the base position to reflect the utilisation of one off funding sources over and above those previously taken into consideration including

- confirmation of the continuation of Housing Benefit Administration Subsidy (£0.432M). This is in addition to £1M assumed in November 2014.
- a further year of New Homes Bonus funding in 2015/16 (£0.342M) This is in addition to £4M assumed in November 2014.
- following confirmation of the level of Education Services Grant (ESG) along with up to date information about anticipated Academy transfers has enabled us to update our estimates for 2015/16 resulting in an increase in anticipated grant of £1M;
- a small increase in the Lead Local Flood Authority grant of £0.042M; and
- a reduction of £0.050M in the Local Reform & Community Voices Grant.

45. The table below details the assumed level of non-specified grants for the period 2015/16 to 2017/18:

| Grant | Estimate 2015/16 £M | Estimate 2016/17 £M | Estimate 2017/18 £M |
|---|------------------------------------|------------------------------------|------------------------------------|
| Revenue Support Grant | 42.473 | 30.054 | 19.214 |
| Housing and Council Tax Benefit Subsidy Admin Grant | 1.783 | 0.309 | 0.272 |
| Lead Local Flood Authority - Paid Via LSSG | 0.065 | 0.020 | 0.018 |
| Education Services Grant | 2.000 | 1.728 | 1.389 |
| Community Right to Challenge | 0.009 | 0.008 | 0.007 |
| Community Right to Bid | 0.008 | 0.007 | 0.006 |
| Local Reform and Community Voices | 0.150 | 0.126 | 0.105 |
| Council Tax - New Burdens Funding | 0.146 | 0.128 | 0.113 |
| New Homes Bonus | 4.342 | 0.000 | 0.000 |
| Total | 50.975 | 32.381 | 21.123 |

46. 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 11 February.

Council Tax Base

47. The council tax base for 2015/16 has been set at 58,825 properties using delegated powers granted by Council on 17 January 2007. This is an improvement on the position assumed in November and reflects growth in the tax base and the required adjustments in respect of the Local Council Tax Reduction Scheme for 2015/16. The increased tax base leads to forecast additional income of £2.340M in 2015/16. This has been reflected in the forecast position.

Collection Fund Surplus / Deficit

48. Income received into the Collection Fund comes from two sources, Non Domestic Rates (NDR) and Council Tax. Until 2013/14 income received from National Non Domestic Rate payers was paid in full to the Central Government NNDR Pool after a contribution had been made to the City Council's General Fund to meet the costs of collection. The net effect of NNDR on the Collection Fund was therefore neutral. However, from 2013/14, due to the localisation of Business Rates (previously known as NNDR) under the Business Rate Retention (BRR) Scheme, BRR variances now have an impact on the Collection Fund Outturn.
49. The remainder of the income received by the Collection Fund is the income due from Council Tax Payers. Some households are entitled to various allowances to the standard rate including the Single Person Discount and Council Tax Reduction that reduce the amount that they are required to pay. Until 2013/14 the cost of Council Tax Benefit was met in full by Government subsidy. However, from 2013/14 onwards this is no longer the position due to ending of Council Tax Benefit and the introduction of a Local Council Tax Reduction scheme.

Council Tax Surplus 2014/15

50. Each billing authority is required to estimate the level of surplus or deficit on the Council Tax element of the Collection Fund at the end of each financial year in order that these amounts can be included in the calculation of the Council Tax for the coming financial year.
51. These estimates must be made by the 15 January each year (or the earliest working day before this date if it falls on a weekend) and then be notified to all precepting Authorities.
52. A revised estimate of the Collection Fund surpluses and deficits as at the end of December 2014 has been calculated. This shows an estimated increase in the income due from council tax payers of £3.212M compared to the original forecast at tax setting time (a variance of 3.6% from the original estimate).
53. In addition there has been an increase in the level of the surplus brought forward on the Council Tax Collection Fund on 1 April 2014 of £0.53M.
54. The amounts identified above combine to make a surplus of just over £3.742M

on the Council Tax Account. This surplus will be shared between the precepting authorities as follows:

| | £M |
|---|--------------|
| Southampton City Council | 3.205 |
| Police and Crime Commissioner for Hampshire | 0.384 |
| Fire & Rescue Authority | 0.153 |
| Total | 3.742 |

This surplus of £3.742M of which the Council's share is £3.205M has been taken into account in setting the 2015/16 Council Tax.

Business Rates Surplus 2014/15

55. From 1 April 2013 the arrangements in respect of NNDR changed from a position where the Authority purely collected business rates on behalf of Central Government to one where this income is shared between Central Government, Local Authorities and major precepting bodies, (Hampshire Fire and Rescue Authority (HFRA) in Southampton's case). This change affects the retention of the income collected and also carries a risk to the Council for failure to collect rates in comparison with a predetermined "Start-Up" funding assessment. Risks of non-collection include rates billed from 1 April, those not yet collected from prior years and appeals that were not resolved before that date.
56. A revised estimate of the Business Rates Collection Fund Surpluses and Deficits has been calculated as at the end of December 2014. This shows an estimated increase in the income due from business rate payers of £4.988M in 2014/15 compared to the original forecast at tax setting time (a variance of 4.8% to the original forecast).
57. There is also an increase in the level of the deficit brought forward on the Business Rates Collection Fund on 1 April 2014 of £0.154M.
58. The amounts identified above combine to make a surplus of £4.834M on the Business Rates element of the Collection Fund. This surplus will be shared between Central Government, Southampton City Council and Hampshire Fire and Rescue Authority as follows:

| | £M |
|-----------------------------------|--------------|
| Central Government | 2.417 |
| Southampton City Council | 2.369 |
| Hampshire Fire & Rescue Authority | 0.048 |
| Total | 4.834 |

This surplus of £4.834M of which the Council's share is £2.369M has been taken into account in setting the 2015/16 Council Tax.

Business Rates

59. The Business Rate Retention (BRR) Scheme was introduced in April 2013 and represented a major change in the way in which local government is funded. It

is seen by the government as providing a direct link between business rates growth and the amount of money local authorities have available to spend on local services. However, the reality is more complex and the new system introduces a high level of risk into the financial position for local authorities without the level of control the government suggests is possible

60. Councils are able to retain a proportion of their growth in business rates but also take the risk for reductions in business rates, although there are 'safety net' arrangements in place to protect against very large reductions.
61. The estimate for 2015/16 has taken into account the estimated rateable value of businesses within the City, adjusted for reliefs, transitional relief, appeals and any reductions in rateable value.
62. Estimating business rate income is complex, as there are many factors which can significantly affect the overall figure, including entitlement to reliefs and properties coming on to, or being taken off the rating list. The biggest uncertainty concerns revaluations arising from appeals against the Valuation Office (VO) determinations. These are very common and can lead to large refunds being backdated several years
63. The amount to be retained, and the amounts to be paid to central government and major precepting authorities are fixed at the start of the financial year on the basis of the billing authority's estimate of its business rate income for the year. Any variation is recognised as part of the end of year accounting process for the Collection Fund and any surplus can be utilised in the budget whilst any deficit must be made good.
64. The NNDR1 form for 2015/16 has now been completed. Given the continued uncertainty of the impact of in year adjustments such as appeals the form allows for estimated growth / decline of various elements. After allowing for these various elements and the impact of the Autumn Statement changes (funded by Section 31 Grant) the Councils Net Rates Payable for 2015/16 is £104.293M.
65. After allowing for estimated losses in collection of £1.5M and estimated repayments in respect of the 2015/16 Rates of £7.572M this gives a Collectable Rates figure of £95.221M.
66. After allowing for Costs of Collection of £0.314M the adjusted Non Domestic Rating Income forecast is £94.907M.
67. The following table shows how the total income is shared:

| | £M |
|---|-----------|
| Estimated Net Domestic Rating Income | 94.907 |
| Amount to be paid to Central Government (50%) | 47.454 |
| Amount to be retained by the Council (49%) | 46.505 |
| Amount to be passed to HFRA (1%) | 0.949 |

68. In addition to income received from the collection of Business Rates the Council will receive grants under Section 31, and these are detailed in the table below:

| Grant Description | Estimated Grant £M |
|--|-------------------------------|
| Multiplier Cap – based on cost of 2% cap on small business multiplier in 2015/16 | 0.678 |
| Small Business Rate Relief | 0.831 |
| Long Term Empty Property Relief | 0.026 |
| Retail Relief | 0.440 |
| Total | 1.975 |

69. The overall level of expected income for business rates is expected to be £5.157M higher than originally forecast for 2015/16. This has been reflected in the updated position presented in Appendix 10. This consists of additional collected income of £1.3M; additional S31 Grant income of £1.488M and the 2014/15 surplus of £2.369M.

Detailed Estimates Changes and Net Interest Payable

70. 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, giving a net favourable variance against the November 2014 position of £0.216M. 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 11 February, an updated assessment of the outlook for interest rates and an assumption that in year borrowing will be delayed.
71. It should also be noted that following a review of the risk fund provision there has been an increase in the level of the provision 2015/16 of £1.286M. A significant element of this increase reflects increasing social care demographic pressures.

Change to Draw on Balances

72. In the light of the financial challenge facing the Council in future years the position presented in November, 2015/16 assumed a draw on balances of £7.934M.
73. Since that time the changes set out above, and most notably the impact of business rates and council tax surpluses, have meant that a reduction in the draw on balances of £0.803M is required to support the revenue position in 2015/16, compared with the balances position resulting from the November draft budget. This gives an adjusted draw of £7.13M in 2015/16.

Changes in Reserves

74. The revised position has allowed some headroom to create a Medium Term Financial Strategy Reserve and to review the Treasury Risk Reserve. This is discussed in more detail in paragraph 119.

Overall Change in Roll Forward Position

75. The table below shows the net changes in the overall forecast position arising from the changes set out overleaf:

| | £M |
|---|---------------|
| Forecast Deficit in November Cabinet Papers | 14.020 |
| Net Impact of Provisional Local Government Finance Settlement | (2.025) |
| Council Tax Base | (2.340) |
| Collection Fund – Council Tax Surplus | (2.827) |
| - Business Rate Surplus | (2.369) |
| Business Rate – 2015/16 Additional Income | (1.300) |
| - Increase in S31 grants | (1.488) |
| Detailed Estimate Changes & Net Interest Payable | (0.216) |
| Increase in Pressures & Bids | 4.546 |
| Increase in Risk Fund | 1.286 |
| Increased Contribution to Reserves - MTFS | 2.890 |
| Transfer from Reserves – Treasury Risk | (1.000) |
| Reduced Draw from Balances | (0.803) |
| Revised Forecast Deficit | 9.980 |

76. In arriving at the 'base' position presented in November it was recognised that one off funding sources of £5.9M had been utilised. The revised position now includes additional non recurrent funding from the collection fund surplus £5.196M and a reduction in Treasury Risk Reserve of £1M. These one off elements, whilst serving to reduce the gap in 2015/16, by their very nature do not positively impact on the medium term financial position. The position also includes a number of grant allocations that are not forecast to continue into 2016/17. These are £4.342M of confirmed continuation of New Homes Bonus grant funding, and £1.432M of Housing Benefit Administration Subsidy Grant.
77. 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 2015/16.

RISK BASED CONTINGENCY FUND

78. 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).

79. 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 instead retained centrally. The Risk Fund is risk adjusted, to reflect the fact that not all the volatile pressures will fully materialise during the year.
80. A sum of £4.503M is included in the Risk Fund for 2015/16 to cover a range of risks, an increase of £1.286M from 2014/15. Funding will only be released during the year if the risk materialises, and evidence is provided to substantiate that the risk cannot be managed within the existing budgets allocated and all avenues for managing the risk have been explored. The release of the fund will be upon approval from the Chief Financial Officer together with the Chief Executive in consultation with the Cabinet Member for Resources

TREASURY MANAGEMENT

81. The Council's Treasury Management Strategy was presented to the Governance Committee on 9th February and is the subject of a report on the Council agenda.
82. It aims to set out a proposed strategy for the coming year in relation to the Council's cashflow, investment and borrowing activity, and the management of the numerous tasks related to the activity.
83. The Council has a large long-term debt Portfolio which includes £35M of variable rate loans, which are currently averaging 0.69% and are helping to keep overall borrowing costs down. Whilst in the current climate of low interest rates this remains a sound strategy, the Council needs to review rates regularly and if appropriate switch into fixed rate loans. In order to mitigate this interest rate risk the Council approved the creation of a Reserve in 2009 to help manage volatility in the future and ensure that there was minimal impact on annual budget decisions or council tax in any single year. In addition to interest rise risk, the Authority has had to give consideration to covering the risk associated with 'bail – in' (following the banking regulation reform) which in future would force losses on investors before taxpayers are asked to support failing banks. This use of this reserve is referred to in paragraph 120.
84. In addition more recently the Council has had significant cash balances available for short term to medium term investments. In order to generate additional income options have been considered for longer term investments such as covered bonds / Floating Rate Note's (FRN's) and similar instruments with a view of investing up to our limit to optimise investment income.
85. It should also be noted that as an alternative to the PWLB, A Local Capital Finance Company was established in 2014 by the Local Government Association. It intends to issue bonds on the capital markets and lend the proceeds to local authorities. In order to be able to have access to this borrowing source, it will be necessary for SCC to contribute to the capital structure of the company. As a result, Council is recommended to approve a

contribution of £20,000 for this purpose in 2015/16 to be met from within the capital financing charges budget. The benefit of this is that it will give an additional alternative borrowing source to the PWLB and should offer more favourable borrowing rates that compete with the rates offered by the PWLB.

REVENUE PRESSURES

86. 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 is not adequate for the level of activity within the service and these pressures cannot be addressed by savings/efficiencies.
87. Pressures totalling £6.505M are being recommended for 2015/16 and the key pressures are set out below and detailed in Appendix 4.
 - £3.1M in Children Services, mainly resulting from an increase in the projected number of Looked After Children; and
 - £2.4M in Health and Adult Social Care, resulting from the full year effect of an increase in the number of clients receiving long term care identified in 2014/15.

REVENUE BIDS

88. Revenue bids are brought forward to fund new spending initiatives. Unlike pressures, which are unavoidable, there is an element of choice in deciding whether to proceed or not with these items. The bids have been reviewed and the proposals for new expenditure put forward by the Executive total £0.126M in 2015/16. These are detailed in Appendix 5

EFFICIENCIES, INCOME AND SERVICE REDUCTIONS

89. 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.
90. The November Cabinet report set out draft budget proposals for consultation and at that point included efficiencies, income generation and service reductions nearing £9.7M. This level of savings went most of the way towards bridging the draft budget gap which at that point in time was more than £14M reducing the gap to £4.347M. The changes summarised in paragraph 75 increase this gap to £9.980M, and this is the level of savings therefore required to balance the draft budget for 2015/16 assuming a council tax increase of 1.99%.
91. 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 £9.980M and are set out in detail in Appendix 6b. These savings include £1.7M of Cross Cutting Savings for Procurement and Agency staff.

STAFFING IMPLICATIONS

92. The City Council employs 3,803 of non-school employees and their 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, the savings proposals put forward, (as set out in Appendix 6b), will have an impact on staff cost and staff numbers.
93. 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.
94. This proactive approach has meant that the Council has been able to hold a 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.
95. Based on the current savings proposals contained in the budget 226.58 Full Time Equivalent (FTE) posts are impacted. The post holders will either be at risk of being made redundant or be subject to TUPE transfer, and up to 265 individuals are impacted.
96. This is in addition to the proposed staffing reductions already approved for 2015/16 as set out in the report agreed by Full Council on 17 September. Taken together with the staffing proposals set out in this report, the potential total reduction in FTEs arising from savings which impact in 2015/16 is 295.98 FTEs.
97. Through the consultation process the Executive has explored 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.
98. 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
99. 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 support employees who find themselves on the redeployment register as a result of savings implemented as part of the 2015/16 budget.

PROPOSED BUDGET PACKAGE

100. 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 1.99% and include a draw from balances of £7.13M.

| | £M |
|---|--------------|
| Total GF Spending (After Addition to Balances & Pressures) | 87.25 |
| Efficiencies, Income and Service Reductions (Appendix 6) | (9.98) |
| Council Tax Requirement | 77.27 |

101. Any changes made to this proposed budget package, for example in response to the ongoing consultation with staff which will run until 11 February 2015, will be highlighted to Full Council on 11 February 2015.

COUNCIL TAX

102. The Executive are recommending a Council Tax increase of 1.99% for 2015/16. 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 2014/15, is the level of council tax required to provide a balanced budget for 2015/16. 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 £1,313.55, which is a 1.99% increase. The full calculation is set out in Appendix 8.

103. The estimates of the payments from the Collection Fund in the form of precepts for 2015/16 are set out in Appendix 9. This also details the increase in Council Tax by property band for 2015/16.

This includes preliminary figures for the Police & Crime Commissioner (PCC) and the Fire Authority, for whom proposed council tax increases of zero for a Band D property have been assumed at this stage. The Appendix therefore shows that when these items are added to Southampton's council tax, the overall percentage change falls from 1.99% to 1.71%.

104. The figures for both the PCC and the Fire Authority will not be approved until after the 11 February and therefore this report requests a delegation of authority to the Chief Financial Officer to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire Fire and Rescue Authority precept and the Police and Crime Commissioner for Hampshire precept.

PAY & ALLOWANCES

105. On 19 November 2013 when the Council considered the plans for the 2014/15 revenue budget it was reported that a period of consultation had started on the future approach to Pay and Allowances. In particular this aimed to address issues of Pay, Equality and Fairness across the Council's service, and mitigating any risk of claims against the Council for operating in a differential fashion. This has been an issue for local government as a whole and most Councils have completed reviews to address inequality in Pay and Allowances or are in the process of doing so.

106. Over the past year the Council has been formulating its proposals so far as pay and allowances are concerned which have been consulted on with the relevant trade unions and reported regularly to Council members. In order to implement these proposals by agreement a vote giving approval is required by the staff side trade unions. If this is not accepted or does not take place the option is available for the Council to dismiss and re-engage staff on revised contracts based on the new arrangements.
107. The Trade Unions are now consulting their members within the council on whether to accept the proposed changes to Pay and Allowances. This will be done mainly by postal ballot with some staff meetings by agreement (GMB in schools, for example). The ballot will start on Monday 2 February with forms returned by midday on Monday 16 February.
108. The financial implications of the ultimate position will be relevant to the 2015/16 budget and the financial position for future years. This has been taken into account in setting the budget for 2015/16.

GENERAL FUND BALANCES AND RESERVES

109. The Council continues to face unprecedented levels of funding cuts combined with increasing demand for services which means the Council is facing extremely high levels of risk. In times of financial stress, one option open to Councils is to utilise reserves and balances to smooth the impact of reducing income and rising costs, allowing Members time to drive through necessary reductions in spend and service transformation
110. In comparison to other Unitary and Metropolitan Authorities, Southampton has a relatively low level of useable balances and reserves, and as highlighted in February 2014 in the CFO's 'Statement on General Fund Budget Strategy' which formed part of the 2014/15 General Fund Budget report, the CFO set out that where the financial position allows, further contributions should be made to balances and reserves. This would provide the Council with further options to smooth and manage the impact of reducing resources and rising demand.

GENERAL FUND BALANCE

111. It is important for Cabinet and Council to consider the position on the General Fund Balance. 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.
112. 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

113. 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 was reviewed in 2014/15 and the CFO recommended that the minimum level of balances be £5.5M in line with good practice guidance. Further consideration has been given this year as to whether the minimum level of balances should be increased further. Appendix 12 Chief Financial Officers View on the Budget sets out this review.
114. The table below shows the position for balances after taking into account the estimated outturn for 2014/15, the budget proposals set out in this report and the current update of the capital programme.

| | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|--|---------------|---------------|---------------|---------------|
| | £M | £M | £M | £M |
| Opening Balance | 53.409 | 23.366 | 11.858 | 10.052 |
| Draw to Support Capital | (1.489) | (1.040) | 0.0 | 0.0 |
| (Draw to Support) / Contribution from Revenue | 3.419 | (7.130) | 2.507 | 4.000 |
| Contributions (to) / from Other Reserves | (3.000) | 0.0 | 0.0 | 0.0 |
| Draw for Strategic Schemes | (7.989) | (3.438) | (4.313) | (4.427) |
| Closing Balance | 23.366 | 11.858 | 10.052 | 9.624 |

115. The current level of balances reflects the budget proposals set out in this report to be approved by Council on 11 February. These proposals include the use of £7.13M of balances in 2015/16 to support the revenue budget. The above projection includes a contribution to Organisational Development allocation contained within balances of £4.45M in 2015/16, £4.2M in 2016/17 and £4.0M in 2017/18 in order to ensure that adequate ongoing provision is made for the costs associated with the implementation of staff related savings and change.
116. In view of the financial challenge facing the Authority the Council must not lose sight of the need to ensure that work is ongoing to develop sustainable savings proposals for future years and must be mindful of the need to carefully consider the extent to which one off funding is utilised in order to deliver a balanced budget in any one year.
117. The minimum level of balances is currently set at £5.5M. The above prediction indicates that the level of minimum balances will be maintained in the medium

term.

Presently, approaching £4.1M is forecast to be available within balances as a consequence of the position set out in this report. Given the fact that this is a forecast position it would not be prudent to utilise this amount at this stage of the year. However, any ultimate amount which is available within balances may be used to fund future initiatives, cover future liabilities or contribute to the revenue budget in future years.

EARMARKED RESERVES

118. As part of the Administration's overall budget proposals set out in this report, they have been able to create some headroom in the overall financial position proposed for 2015/16, such that a contribution can be made to reserves (to a Medium Term Financial Risk Reserve) in recognition that the budget forecasts for 2016/17 onwards remains extremely challenging.

Medium Term Financial Risk Reserve

119. As a result of the risk around the Medium Term Financial Strategy, the volatility around Business Rates, and the potential for savings to be delayed as the Council goes through a period of major change a Medium Term Financial Strategy reserve has been set up to assist the Council in managing this risk. In making this contribution, it is felt that the certainty of the need to inject additional non-recurrent funding into the budget in future years as part of managing the overall budget position, is great enough to trigger an accounting requirement for an earmarked reserve to be created. It is therefore proposed to establish a Medium Term Financial Risk Reserve with a contribution of £2.89M in 2015/16 (partly funded by a transfer of £1M from the Treasury Risk Reserve, as set out below) and for the authority for draws on this reserve to be delegated to the Chief Financial Officer and the Chief Executive in consultation with the Cabinet Member for Resources.

Treasury Risk Reserve

120. A review of the Treasury Risk Reserve (formerly the Interest Equalisation Reserve) has resulted in a reduced requirement offset aside. This review has taken into consideration the revised outlook for interest rates and the Council's revised levels of borrowing, and also the Council's pro-active investment strategy which aims to mitigate wherever possible the risk of Bank Bail in. As a result of the review it is proposed to transfer £1M of the reserve to the Medium Term Financial Strategy Reserve.

MEDIUM TERM FINANCIAL STRATEGY

121. Attached at Appendix 10 is the Council's Medium Term Financial Strategy, which sets out the way the financial planning process is integral to the business planning process and the context within which the Medium Term Financial Strategy is set.
122. It should be noted that there remain significant budget shortfalls in the medium term, with a forecast gap currently of £39M in 2016/17 rising to a cumulative gap of almost £61M in 2017/18. The medium term financial position has been increased to incorporate a five year planning horizon, however it should be noted that the further into the future the figures are the more subject to change they become. At the close of this timeline there is a forecast £90M gap.

The funding gap will be reviewed and addressed as part of the ongoing development of longer term financial planning.

123. Whilst the budget for future years does not need to represent a balanced position by the time that Full Council set the 2015/16 budget on 11 February 2015, Members should not lose sight of the need to ensure that work is ongoing to develop savings proposals for future years. Significant further work is required to ensure that savings can be delivered to balance the budget for these future years. It is imperative that plans are put in place as soon as possible in order that the Council can address the significant budget shortfall for 2016/17 onwards.

BETTER CARE FUND

124. In the Comprehensive Spending Review statement made in summer of 2013 the Chancellor of the Exchequer announced that nationally a sum of £3.8 Billion would be set aside in 2015/16 to ensure closer integration between health and social care. This funding was described as “a single pooled budget for health and social care services to work more closely together in local areas, based on a plan agreed between the NHS and Local Authorities”.
125. The final plan was signed off by the Health and Wellbeing Board, Chief Executive of the City Council and Chief Operating Officer of the CCG on 19 September 2014 and submitted to Ministers. This has been recently approved following the Nationally Consistent Assurance Review which identified no areas of high risk within the plan and means that Southampton can now progress its plan with the establishment of a Better Care pooled fund by 1 April 2015.
126. The minimum requirement for the Better Care Fund in 2015/16 is a £15.325M revenue contribution, of which £5.085M is SCC funding and a £1.526M capital contribution, all of which is SCC funding. From 1 April 2015 it is proposed to enter into a S75 pooled fund agreement with the Southampton City Clinical Commissioning Group (SCCCG) for the sum of approximately £61M for three schemes; Cluster development, Supporting carers and Integrated discharge, reablement and rehabilitation. This represents pooling budgets for a significantly greater number of services than the minimum required which is consistent with the ambition locally to integrate and pool resources at scale to significantly transform its health and care services. Furthermore, the schemes Placement & Packages and Community Solutions & Prevention are proposed to be added at a later date bringing the total pooled fund to £132M.
127. The pooled fund, from 1 April 2015, will initially include budgets from SCC and SCCC that total £5.3M and £55.5M respectively. Under the conditions of the Better Care Fund, additional funding of £0.6M from within the pool, from 1 April 2015, will be provided to help meet the new responsibilities of the Council required by the Care Act 2014. This funding will come from the existing NHS resource and will therefore be a pressure to the CCG.
128. A report was submitted to Cabinet on 20 January 2015 which provides further details on the Better Care Fund. This report recommended that Council approved the Better Care Fund proposals.

TRANSFORMATION PROGRAMME

129. Cabinet are considering alongside this report the Transformation Programme Update Report. This details the progress made in designing and delivering the Council's new Operating Model.

The priorities of the Transformation Programme are:

- Implementing a new operating model for the Council by 2017, which is focused on delivering the outcomes and priorities of our Council Strategy 2014/17;
 - Reduce year on year our overspends as well as reducing the costs and demands for social care services for our vulnerable children and adults;
 - Develop a list of Council services that will have to be stopped or reduced;
 - Reduce the level of resources in our front and back office functions;
 - Further reduce our procurement spend on external supplies and services and a review of all contracts;
 - Significantly reduce our management layers and widen our spans of control; and
 - Become more commercially focussed in how we do business and use innovation to reduce costs and generate more income.
130. The report explores how the Council will need to change the way it operates in order to meet the challenges it faces over the coming years. This new model of operating will ensure the Council focuses service delivery on meeting the outcomes really needed by local residents, communities and businesses.
131. The financial challenge facing the Council is obviously a major driver for this change, and we need to review the way we set budgets to align budgets with an outcome and commissioning based approach, as detailed in the Medium Term Financial Strategy.
132. The initial work that has been carried out has identified potential recurrent savings of £15M from Transformation towards addressing the £61M budget gap. These potential savings also come with potential one off investment requirements of £4.5M revenue over the 2 year period, and £10M capital. The capital investment requirements will need to be built into the Capital Programme review detailed in the Capital Strategy.
133. At this stage the proposals referenced in the Transformation Report are high level, and the potential savings, as set out below, are therefore indicative. However, the Chief Executive and Management Team will aggressively drive forward the identified savings opportunities and themes to deliver the maximum level of savings possible to contribute towards closing the Council's overall budget shortfall.
134. A key part of this approach will be to deliver the identified savings opportunities as early as possible during 2015/16, and work is already underway to achieve that objective. As work progresses the potential level of savings will be confirmed, and further reports will be brought forward during the year to agree new savings and update on the budget gap remaining
135. As the proposals are still in development, for financial planning purposes and for inclusion in the Council's Medium Term Financial Strategy, a prudent assessment has made of the likely level of savings which can be delivered

across the identified themes. However, as referenced above, the aim will be to aggressively pursue these savings to deliver the maximum financial benefit which is possible.

136. The table below presents a summary of the high level savings identified to date across the 4 themes. For presentation purposes, the savings are shown on a full year basis from 2016/17 onwards, although the clear intention is to progress the individual strands of work underpinning each theme at the earliest opportunity.

| | 2016/17 | 2017/18 |
|--|----------------|----------------|
| | £M | £M |
| New Service Delivery Model | 1.7 | 5.7 |
| Services Stopped or reduced | 0.6 | 0.6 |
| Restructure and Streamline Existing Services | 1.9 | 3.1 |
| Cross Cutting | 4.9 | 5.9 |
| Total | 9.0 | 15.2 |

137. On the basis of the high level work to date, the current proposals which are being worked up have the potential to contribute £15M towards the Council's overall medium term budget position by 2017/18.
138. It should be noted that at this time the £15M does not include any savings from the delivery of procurement efficiencies. The Council's Management Team are looking to drive out significant savings from third party contracts and is working with Capita to initially identify those contracts which may offer the largest scope for savings.
139. The next steps in the transformation programme are to go to detailed design which should be complete by October 2015, at this stage the programme should have gone some way to addressing the £61M 2 year budget gap and identifying the necessary costs for 2016/17.

RESOURCE IMPLICATIONS

Capital

140. The revenue implications of financing the General Fund Capital Programme are reflected in the 2015/16 estimates presented in Annex A of Appendix10.

Revenue

141. As set out in the report.

Property/Other

142. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

INTRODUCTION

143. 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

144. 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.
145. 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.
146. 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

147. 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.
148. 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.

149. 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.
150. 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".
151. 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.
152. 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.
153. 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

154. 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.
155. 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

156. 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

157. 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.
158. 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.
159. 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.
160. 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

161. 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)

162. 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.
163. 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.

164. 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; and
- The 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

165. 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

166. 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.
167. 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.
168. 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.
169. 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:

170. 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 Council's Management Team (CMT), the proposals contained in this report have been checked from a legal viewpoint.
171. 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 2014/15 to 2016/17. 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.
172. 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 and having considered its budget decisions having full regard to the requirements of the Equality Act 2010 and the public sector equality duty, 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.

173. 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

174. The Medium Term Plan and the Budget are key parts of the Policy Framework of the Council and a Budget and Council Tax for 2015/16 must be proposed by the Executive (Cabinet) for consideration by the Full Council under the Constitution.

KEY DECISION? Yes/No

| | |
|-----------------------------|-----|
| WARDS/COMMUNITIES AFFECTED: | ALL |
|-----------------------------|-----|

SUPPORTING DOCUMENTATION

Appendices

| | |
|-----|---|
| 1. | Budget Consultation and Feedback Analysis |
| 2. | Equality and Safety Impact Assessment |
| 3. | Revised General Fund Revenue Budget 2014/15 |
| 4. | Summary of Revenue Pressures |
| 5. | Summary of Efficiencies, Additional Income and Service Reductions |
| 6. | Individual Efficiencies, Additional Income and Service Reductions |
| 7. | 2015/16 General Fund Revenue Account |
| 8. | 2015/16 Council Tax Calculation |
| 9. | 2015/16 Collection Fund Estimates |
| 10. | Medium Term Financial Strategy 2015/16 – 2019/20 |
| 11. | Statutory Power To Undertake Proposals In The Report |
| 12. | Chief Financial Officers Statement |

Documents In Members' Rooms

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| 1. | Budget Proposals - Equality and Safety Impact Assessment |
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Equality Impact Assessment

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

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 2015/16 TO 2017/18 – APPROVED BY CABINET ON 17 NOVEMBER 2014 | |
|----|--|--|