

<b>DECISION-MAKER:</b>	CABINET		
<b>SUBJECT:</b>	UPDATE ON BUDGET FOR 2021/22 (INCLUDING COVID-19), MEDIUM TERM FINANCIAL STRATEGY, POTENTIAL SAVINGS AND CAPITAL PROGRAMME		
<b>DATE OF DECISION:</b>	15 DECEMBER 2020		
<b>REPORT OF:</b>	COUNCILLOR BARNES-ANDREWS CABINET MEMBER FOR FINANCE & INCOME GENERATION		
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<b>STATEMENT OF CONFIDENTIALITY</b>
N/A
<b>BRIEF SUMMARY</b>
<p>This report updates on the budget position for 2021/22 in the light of the COVID-19 pressures that commenced in late 2019/20, through 2020/21 and are continuing in 2021/22. It highlights the financial challenge to achieve a balanced budget for next year and outlines the financial uncertainty the council faces – due to the direct impact of COVID-19 and also the impact it has on the council’s finances through COVID-19’s economic effects. In recent years Government has linked a number of funding sources for local councils to the strength of the local economy. For example, council’s funding is linked to business rate growth and also the council tax base is influenced by the numbers of people entitled to support with their council tax payment.</p>
<p>All councils are facing unprecedented difficulties in coping with the combined challenges of COVID-19’s impact on service demand, the economic consequences of COVID-19 and the on-going pressures of rising demand for social care. This authority considered a report at its September Council meeting that outlined the financial pressures in the current year and these continue to be carefully monitored. The recent issuing of a s114 notice by the London Borough of Croydon, emphasises the scale of the financial challenges facing many local authorities. Southampton has included in its budget safeguards to promote financial resilience which help mitigate the most immediate financial risks faced by many councils, but longer term actions are also likely to be called for. Overcoming the challenges faced will require additional work outside of the usual annual budget process. It is anticipated financial proposals will be submitted in-year as well, to meet the fiscal challenges and ensure sustainable finances.</p>
<p>There is uncertainty over future funding from 1 April 2021 not only due to COVID-19 and economic uncertainty but also because the Government has not yet announced the provisional local government finance settlement. At the time of writing this report, the Chancellor has announced his Spending Review 2020, which provides a number of headline announcements around future funding for councils, but only over a 1 year time horizon. It is only the financial settlement which provides the detailed information on</p>

what this means at local authority level and provides detailed allocations to each authority including Southampton. Unfortunately, the continued uncertainty about the funding of local government makes the task of reviewing the Medium Term Financial Strategy (MTFS) more challenging and means that the announcement of the local government finance settlement, scheduled for mid December 2020, has become an even more critical element in developing a balanced budget for 2021/22 and updating the MTFS. For this reason, the report can present very limited information on the financial position after 2021/22, but this will be more fully updated once the financial settlement is announced and in time for the council's February budget meeting.

Due to the uncertainty, this report has had to make a number of assumptions on future funding – both in terms of Government support and also how the economic impact of COVID-19 may impact on the authority. The implications of further announcements, and in particular the finance settlement, will therefore need to be included in the update to Council in February 2021.

The report outlines a number of new budget pressures as well as high priority investments needed for 2021/22. It also makes a number of draft proposals and measures to help mitigate the budget shortfall it is estimated the council faces next year. These will be used as the basis for a conversation and consultation with a range of stakeholders over the weeks leading up to the budget decision. The proposals within this report do not achieve a balanced budget for 2021/22, and as per paragraph 40 a shortfall is currently forecast of around £3.97M. Further work is underway to close the shortfall, and the options will be reconsidered in the light of the finance settlement when announced.

In meeting this remaining shortfall, even if other matters remain constant, then the council will have the following options available:

- A further increase of 1% on the council tax for Adults Social Care (ASC)
- Use of reserves
- Reduction in centrally held funds such as contingency.

The context that surrounds our budget position is that our financial resilience has enabled us to meet the impact of COVID-19 in 2020/21 to the tune of around £10M. This resilience needs to continue as during the course of the summer of 2021 we will need to be planning and taking action, including areas not reviewed such as Place Directorate, including bolstering the council's financial resilience and planning for the potential budget challenges including funding changes that will appear in 2022/23.

**RECOMMENDATIONS:**

It is recommended that Cabinet:

	i)	Notes the update within this report and the assumptions it has been necessary to make at this stage. Also that given the uncertainty involved, the pending local government finance settlement will be more crucial than ever in influencing the final budget proposals.
	ii)	Notes the budget pressures which have been included in the forecast which are set out in paragraphs 27 to 29 and appendix 2.
	iii)	Note the initial savings set out in paragraph 35 to 37 and appendix 4.

	iv)	Notes that the budget proposals for conversation and consultation are based on the assumption that they will recommend a Council Tax increase, as outlined in paragraph 30, being 1.99% for a core increase and 2% extra specifically for Adults Social Care.
	v)	Further notes that the Spending Review 2020 announced social care authorities will be able to charge a 3% precept to help fund pressures in social care. This is 1% more than the current draft budget assumption for 2021/22. Cabinet are asked to await the details of the provisional local government finance settlement and the funding it will provide before assessing if this extra flexibility on council tax should be considered.
	vi)	Note the formal public consultation on the draft budget proposals will commence on 16 December 2020 and run until 19 January 2021 but that later comments received via paper consultation very shortly after this date will still be considered.
	vii)	Notes that even with the proposals contained in this report, a budget shortfall of £3.97M is still currently forecast. Further work will therefore be needed should this gap persist once the provisional local government finance settlement is announced.
	viii)	Notes the amendments to the capital programme contained in paragraphs 44 to 46.

#### **REASONS FOR REPORT RECOMMENDATIONS**

1.	This report is submitted for consideration as part of good practice establishing draft budget proposals in advance of the financial year.
2.	The production of a financial forecast and an outline timetable are a requirement of the Council's Budget and Policy Framework Procedure Rules.
3.	In addition, it is good practice for the Council to consult with a range of stakeholders on its proposals for developing the budget. The recommendations in this report have therefore been put forward to allow this process to formally begin.

#### **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

4.	The proposals presented in this report represent the Cabinet's initial proposals for the 2021/22 budget and medium term, which are being published for consultation. There are a number of variables and alternative options that could be implemented as part of the budget. The budget will be set by Full Council in February 2021.
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#### **DETAIL (Including consultation carried out)**

	<b><u>Background</u></b>
5.	Full Council approved a 3-year Medium Term Financial Strategy (MTFS) in February 2020, the objective of which is to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the council's priority outcomes.
6.	There are 6 key aims of the Strategy to: <ul style="list-style-type: none"> <li>• provide financial parameters within which budget and service planning should take place;</li> <li>• ensure that the council sets a balanced and sustainable budget;</li> </ul>

	<ul style="list-style-type: none"> <li>• focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources. Ensuring services are defined on the basis of a clear alignment between priority and affordability;</li> <li>• ensure that the council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;</li> <li>• plan the level of fees, charges and taxation in line with levels that the council regard as being necessary, acceptable and affordable to meet the council's aims, objectives, policies and priorities whilst gradually reducing the council's reliance on Central Government funding; and</li> <li>• ensure that the council's long-term financial health and viability remain sound.</li> </ul>										
7.	Table 1 below shows the MTFS position as reported in February 2020.										
8.	<p><u>Table 1 – Funding Gap 2020/21 to 2022/23</u></p> <table border="1"> <thead> <tr> <th></th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> <th>Total £M</th> </tr> </thead> <tbody> <tr> <td>Budget Shortfall</td> <td>0.00</td> <td>3.87</td> <td>10.22</td> <td>14.09</td> </tr> </tbody> </table>		2020/21 £M	2021/22 £M	2022/23 £M	Total £M	Budget Shortfall	0.00	3.87	10.22	14.09
	2020/21 £M	2021/22 £M	2022/23 £M	Total £M							
Budget Shortfall	0.00	3.87	10.22	14.09							
9.	As indicated in table 1, the forecast for 2021/22 included a budget shortfall of £3.87M when comparing spend to funding at the time of the February MTFS reported to Full Council.										
10.	The forecast shortfall increases to £10.2M in the subsequent year (2022/23).										
	<b><u>National Economic Picture and Public Expenditure Plans</u></b>										
11.	The ability to encourage growth in the economy, the number of businesses operating in Southampton plus the level of employment within the area directly impact upon the finances of the council. The amount of council tax and business rates income collected directly contributes to the funding of services provided. The latest developments in relation to COVID-19 have the potential to add to the financial risks faced by the council depending upon how long and with which frequency the restrictions are required due to the pandemic. The impact of restrictions is the same as with any other business. Similarly, the end of the Brexit transition period in January 2021 also has a potential to affect the financial outlook and hence the revenue the council can expect including from council tax and business rates.										
12.	Following a one-year Spending Round in 2019 covering only 2020/21, a multi-year comprehensive spending review had been expected during 2020. However, having cancelled the Autumn Budget in September, the Government announced in October that in order to prioritise the response to COVID-19, and focus on supporting jobs, the Chancellor and the Prime Minister had decided to conduct a one-year Spending Review. The Spending Review 2020 (SR20) was published on 25 November 2020 and key headlines from the announcement are summarised in Appendix 1. An initial analysis of what this might mean for the council has been undertaken, however details will not be confirmed until the local government finance settlement expected in Mid December.										
13.	Earlier in the year the Government announced that the move to 75% business rates retention and changes to how funding is distributed between councils										

	under the fair funding review would be delayed by another year to April 2022, to allow councils to focus on dealing with the COVID-19 pandemic. In addition, the next business rate revaluation was deferred by a year to April 2023, so that it better reflects the impact of COVID-19, based on property values as at 1 April 2021 and not 1 April 2019 as previously planned. The long-awaited green paper on social care has also not yet been published.
14.	For the purposes of financial planning, we have continued to assume that the council is no better or worse off in funding terms from any policy changes resulting from these reviews until more detail is provided.
15.	The continued uncertainty about the funding of local government makes the task of ensuring the council has a sustainable financial position and estimating and updating the MTFS more challenging. It means that the announcement of the local government finance settlement, which is likely to be announced after this report is published, in mid-December 2020, has become even more critical than ever in developing a balanced budget for 2021/22.
16.	Southampton City Council, like all other councils in England, will therefore face setting a budget and planning the future direction of its finances in exceptionally challenging times. It will also mean that the council needs to be more financially agile and adapt the budget process. A budget update and mitigating actions for rising budget pressures in relation to COVID-19 were reported to Full Council in September. In order to meet the financial challenge the council faces budget proposals will almost certainly need to be brought forward during the 2021/22 fiscal year.
	<b><u>2020/21 General Fund Forecast Outturn</u></b>
17.	As at the end of October 2020, the forecast spending against the council's net General Fund revenue budget of £190.82M on business as usual (BAU) activities for the year is projected to be a £3.49M surplus after applying corporate funds.
18.	The most significant adverse variances on business as usual activities continues to be in the Children & Learning portfolio, which is forecast to overspend on service provision by £4.73M. Most of this relates to 'Looked After Children' who are in the care of the authority as their 'Corporate Parent'. This is due to a higher number of children placed in residential care and independent fostering agencies than originally predicted and therefore budgeted for.
19.	The forecast shortfall relating to General Fund pressures from COVID-19 as at the end of October 2020 is £2.64M, after applying government grants and estimated income compensation, the forecast surplus on BAU activities, in-year savings and corporate funds. This will need to be met from earmarked reserves if no further Government support is forthcoming.
	<b><u>Dedicated Schools Grant</u></b>
20.	The 2020/21 forecast outturn for the Dedicated Schools Grant (DSG) is a £9.32M overspend which includes £0.32M for COVID-19 related pressures. The DSG Grant is ring-fenced and the overspend will not impact on the General Fund and non-school services the council provides.
21.	This overspend is being driven by significant year on year increases in Education Health Care Plans (EHCPs) and increasing numbers of expensive out of city placements in independent school settings. A working party is undertaking a strategic review of High Needs activity to mitigate pressures. The variance includes a cumulative DSG overspend of £7.42M brought forward

	from the previous year. Pressures on the High Needs services is a nationally recognised issue with significant pressures reported in most local authorities. The 17% increase in High Needs funding in 2020/21 has mitigated some of the pressure being experienced but further work is needed to reduce costs where possible. High Needs funding will also increase by about 12% for the next 2 years which will help the deficit recovery plan.
22.	£0.32M of the DSG overspend is as a consequence of COVID-19 pressures for loss of income through the cancellation of training courses, room lettings and reduction in the level of parental fees paid directly to maintained nursery settings.
	<b><u>2021/22 Budget and MTFS</u></b>
23.	The economic and local government environment is currently very fluid and the council's financial plans must remain agile and responsive to changes and opportunities as they arise.
24.	The immediate focus is to set a balanced budget for 2021/22. In facing this challenge the council is prioritising services that care for the most vulnerable in our society and seeking to protect front line services.
25.	COVID-19 is likely to have an impact on the council's expenditure and income well beyond this current financial year, even once restrictions to deal with the pandemic are lifted, due to the long-term effect on the economy and other legacy issues. The council's MTFS must cater for this longer-term impact of COVID-19 as well as address other expenditure pressures being faced, such as increased demand for adult social care as the elderly population rises as well as the impact of Covid-19 on this group of the population in the city.
26.	Due to the uncertainty with spending, income and savings plans – which are strongly influenced by COVID-19, as well as uncertainty of future funding and the absence of any local government finance settlement from Government a full update of the Medium Term Financial Strategy (MTFS) would not be useful at this point.  The MTFS will be updated, in full, once the finance settlement is received and where major uncertainty persists this will be made clear and a pessimistic/optimistic financial range given where needed.
	<b><u>Budget Pressures</u></b>
27.	Table 2 below sets out budget pressures that are anticipated to continue into 2021/22 from COVID-19 and other budget pressures for business as usual activities. Other pressures include primarily unavoidable costs, such as from the high demand for Children's Social Care, however also include some costs relating to key priorities of the council such as the City of Culture.

<u>Table 2 – 2021/22 Budget Pressures</u>			
	<b>COVID-19 Pressures £M</b>	<b>Other Pressures £M</b>	<b>Total £M</b>
Additional costs	16.67	11.36	28.03
Loss of income	5.24	1.56	6.80
Unachievable savings	3.91	1.63	5.54
<b>Total Pressures</b>	<b>25.82</b>	<b>14.55</b>	<b>40.37</b>
Less:			
Use of Demand Reserve to meet Social Care pressures			(17.50)
Use of Digital Strategy Reserve to fund IT investment			(1.17)
<b>Total Net Pressures</b>			<b>21.70</b>
28.	Further details on the budget pressures is provided in Appendix 2.		
29.	The budget assumes a pay pressure of 0.5% in 2021/22, in keeping with current inflation level. The actual pay rise will be fixed under national negotiations and the council will be obliged to pay this.		
<b><u>Council Resources</u></b>			
30.	<p><u>Council Tax</u></p> <p>Council tax precept income is a product of the band D council tax charge and the council tax base.</p> <p>The February 2020 MTFs assumed a 1.99% increase in the band D charge and no increase in the Adult Social Care levy. In SR20 the government announced local authorities will be able to increase the band D charge by up to 2% without seeking a referendum and, in addition, social care authorities will be able to charge an extra 3% precept to help fund pressures in social care, with the option to defer some of that increase into 2022/23. The proposals in this report assume a council tax rise of 1.99% for the 'core' charge. Additionally, there would be a 2% rise specifically for Adults Social Care. Confirmation is awaited in the local government finance settlement of the details around 3% for Adults Social Care and once that information is published by Government consideration can be given to applying a further 1% rise.</p> <p>The increase <u>assumed</u> in this report for the 2021/22 council tax rise would mean a band D council tax charge for the Southampton City Council element of council tax of £1,628.82. This represents a rise of £1.20 per week for a band D property. The majority of households in Southampton are at council tax bands less than band D, and/or qualify for support with their payment, so many households will pay less than this level of increase. Based on the 2021/22 tax base assumed in the February 2020 MTFs, each 1% increase in the band D charge would generate £1.03M additional income to pay for public services in the city including those areas mentioned above that are placing much demand i.e. Children and Adult Social Care.</p> <p>More information on the level of council tax assumed is in Appendix 3 (for illustration), which shows almost 80% of residents will be in a band C property</p>		

	<p>or below and therefore incurring a lower increase than £1.20 a week. For those entitled to Single Person's Discount, they will only pay 75% of this sum (£0.90p at band D), or if entitled to local council tax support as little as 25% (£0.30 per week at band D). The final decision on council tax is a matter for full council when it meets to discuss the budget in February.</p> <p>The council tax base is the estimated number of chargeable properties (net of discounts, exemptions and disabled relief) in each property band less the reduction as a result of the Local Council Tax Support (LCTS) Scheme. A factor is applied to each band to calculate the number of Band D equivalents, together with a percentage allowance for non-collection. For planning purposes it has been assumed that there is no change in the number of chargeable properties or budgeted non-collection rate compared to the February 2020 MTFS, however the number of working age LCTS claimants is expected to increase as a result of rising levels of unemployment. The current working assumption is that working age LCTS claimants will rise by a third compared to the level before the pandemic. This would result in a <b>£2.45M reduction in council tax income for 2021/22 compared to the February 2020 MTFS</b>. Each 10% increase in working age LCTS claimants would reduce council tax income by about £0.74M.</p> <p>Further grant funding for local authorities to support households that are reliant on support to help pay council tax was announced in SR20.</p>
31.	<p><u>Business Rates</u></p> <p>Under the Business Rates Retention (BRR) Scheme the Council retains 49% of the business rates collected for Southampton (with 50% going to central government and 1% to the Hampshire Fire &amp; Rescue Authority). The council also receives government grant in lieu of business rates income where the government has introduced new reliefs etc., so the two need to be considered together in assessing the impact of any changes.</p> <p>Business rates payable (before any reliefs are applied) is a product of the rateable value of a property and the business rates multiplier. The multiplier is normally updated each year with reference to the Consumer Price Index 12-month rate for September of the preceding year. The February 2020 MTFS assumed the multiplier would increase by 2.0%. The actual September 2020 12-month rate was 0.5%. This lower CPI rate results in a <b>reduction in business rates income for the council of £0.52M for 2021/22 compared to the MTFS</b>. In SR20 the government announced that the multiplier would be frozen for 2021/22 to support businesses in the near-term (meaning no CPI indexed increase to business rates), however local authorities will be fully compensated for this through grant funding.</p> <p>In addition to the lower CPI rate pressure, the total rateable value of properties in Southampton is currently £1.88M lower than when the MTFS was agreed in February 2020, due to successful appeals and properties coming out of the rating list. <b>This reduces the business rates income for the council by £0.40M for 2021/22 compared to the MTFS.</b></p>



	<p>COVID-19 is expected to result in a slowdown in commercial developments and increased levels of empty properties. The February 2020 MTFS included 0.6% growth in gross rates payable for 2021/22. Assuming only half this growth will be achieved would <b>reduce the council's share of business rates income by £0.16M</b>. The February 2020 MTFS allowed for empty property relief to be 2.7% of gross rates payable. The current working assumption is that this will be 5.0% in 2021/22, <b>reducing the business rates income for the council by £1.55M compared to the MTFS budget assumption</b>. Each 1% increase in empty property relief would reduce the council's share of business rates income by £0.65M.</p> <p>There has also been an increase in the proportion of rates eligible for small business rate relief <b>which reduces the business rates income for the Council by a further £0.10M for 2021/22 compared to the MTFS</b>.</p>
32.	<p><u>Collection Fund Deficit Carried Forward</u></p> <p>In a normal year, the council's share of any estimated surplus or deficit on the Collection Fund for the current financial year would have to be taken into account in setting the budget for the following year. However, the government recognised that the impact of COVID-19 may result in significant deficits in 2020/21 and has made regulations to require any 2020/21 in-year deficit to be spread equally over the 3 years 2021/22 to 2023/24. This does not apply to undistributed deficits for 2019/20 which must be recovered in full in 2021/22. For business rates, the element of the 2020/21 deficit relating to expanded retail discount and nursery scheme reliefs is excluded from the amount to be spread and must also be met in full in 2021/22, although this will be offset by related grant funding carried forward. Although spreading does not reduce the total deficit to be recouped it does lessen the impact of this burden in 2021/22.</p> <p>Consequently, the council's £1.85M share of the residual 2019/20 Collection Fund deficit must be budgeted for in 2021/22. The council's share of the estimated 2020/21 in-year Collection Fund deficit to be spread over the next 3 years is £2.76M (£0.92M in each year). This estimate includes an element for the risks of increased numbers of LCTS Scheme claimants and additional empty property relief for business rates arising before the end of the year. This estimate will be updated in January 2021. <b>The combined impact of the estimated 2020/21 deficit and previous year's deficit is therefore £2.77M in 2021/22.</b></p> <p>The total impact of the factors mentioned above, on business rates and council tax forecasts and the expected deficit to be borne in 2021/22 amount to around <b>£7.95M</b> on current estimates. This is influenced by economic factors and hence may change once a final estimate is made in January 2021. As noted in Appendix 1, Government has proposed to support 'irrecoverable losses' from business rates and council tax incurred during 2020/21, on the basis of 75%, but as no details of a scheme are yet known it is impossible to quantify what this may mean.</p>
33.	<p><u>Government Grants</u></p> <p>Pending confirmation in the Local Government Finance Settlement, little change has been made to the assumptions for Revenue Support Grant and Business Rates Top-Up Grant. On New Homes Bonus, though the scheme</p>

	<p>continues we have prudently assumed no further allocations but it remains to be seen what is in the settlement.</p> <p>SR20 confirmed local authorities will receive additional funding for COVID-19 costs in 2021/22, further compensation for loss of fees and charges income in the first quarter of 2021/22 due to COVID-19, additional social care funding and continuation of Improved Better Care Fund grant at 2020/21 levels (which is more than what was assumed in the February 2020 MTFS). It is estimated that the council will receive £12M in grant from Government compared to the February 2020 MTFS (which was written before the pandemic crisis). However, the February MTFS also did not factor in the spending pressures which have emerged since the pandemic emergency began in March 2020.</p> <p>The government has also confirmed that the ring-fenced core Public Health Grant for 2021/22 will be maintained at the same level as for 2020/21.</p>												
34.	<p><b><u>Reserves and Balances</u></b></p> <p>The balance on General Fund earmarked revenue reserves (excluding schools' balances) at the end of 2019/20 was £86.20M and by the end of 2020/21 is forecast to be £61.13M. Within this, the balance on the Medium Term Financial Risk Reserve is forecast to be £36.44M at the end of 2020/21, with further planned calls of £13.31M over the medium term, leaving £23.13M uncommitted. The balance on the Demand Risk Reserve is expected to be £11.54M at the end of 2020/21, with planned contributions of £7.0M in 2021/22 included within the February 2020 MTFS which would bring the balance up to £18.54M at the start of 2021/22 before any further calls. Of this £17.50M is applied to support additional social care spend as outlined in table 2.</p> <p>At the end of 2019/20 general balances stood at £10.07M and are expected to be maintained at this level in 2020/21 to provide for any unknown risks.</p>												
	<p><b><u>Draft Savings Proposals</u></b></p>												
35.	<p>A series of challenge sessions were held with individual Executive Directors, the Executive Management Board, the Council Leader, Cabinet member for Finance and Income Generation and relevant Cabinet portfolio holders to identify savings proposals to address the budget shortfall without impacting significantly on the delivery of front-line services.</p>												
36.	<p>The savings proposals are summarised in Table 3 below, with details in Appendix 4.</p>												
	<p><b><u>Table 3 – Savings Proposals</u></b></p> <table border="1"> <thead> <tr> <th></th> <th><b>2021/22 £M</b></th> <th><b>2022/23 £M</b></th> </tr> </thead> <tbody> <tr> <td>Income Generation</td> <td>0.64</td> <td>0.58</td> </tr> <tr> <td>Efficiency &amp; Service Improvement</td> <td>9.62</td> <td>6.15</td> </tr> <tr> <td><b>Total Savings Proposals</b></td> <td><b>10.26</b></td> <td><b>6.73</b></td> </tr> </tbody> </table>		<b>2021/22 £M</b>	<b>2022/23 £M</b>	Income Generation	0.64	0.58	Efficiency & Service Improvement	9.62	6.15	<b>Total Savings Proposals</b>	<b>10.26</b>	<b>6.73</b>
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37.	<p>The proposals have been put forward on the basis of minimising the impact on the front line services. Savings are therefore categorised across the following areas:</p>												

	<ul style="list-style-type: none"> <li>Income generation</li> <li>Efficiency and service improvement</li> </ul> <p>There are no savings proposals being put forward from the Place Directorate. This reflects the nature of the proposals being worked up are complex, and not sufficiently developed to be tabled and consulted on at this time. The expectation is these will be brought forward during the course of 2021/22 for consideration at full Council. Savings proposals for the Children's Service are similarly under development to be submitted to Full Council during 2021/22.</p>																		
	<b><u>Revised Budget Shortfall</u></b>																		
38.	Table 4 below sets out the revised budget shortfall for 2021/22 taking into account the budget pressures, Collection Fund deficit recoupment/estimated reduced income, draft savings proposals and additional grant income outlined above, together with proposed use of revenue reserves to meet specific pressures.																		
39.	<p><b><u>Table 4 Revised Budget Shortfall</u></b></p> <table border="1"> <thead> <tr> <th></th> <th style="text-align: right;"><b>2021/22 £M</b></th> </tr> </thead> <tbody> <tr> <td>Budget shortfall per February 2020 MTF5</td> <td style="text-align: right;">3.87</td> </tr> <tr> <td>Net budget pressures</td> <td style="text-align: right;">21.70</td> </tr> <tr> <td>Collection Fund deficit carried forward &amp; reduced income</td> <td style="text-align: right;">7.95</td> </tr> <tr> <td><b>Sub-Total</b></td> <td style="text-align: right;"><b>33.52</b></td> </tr> <tr> <td>Less:</td> <td></td> </tr> <tr> <td>Estimate of additional funding from SR20</td> <td style="text-align: right;">(12.00)</td> </tr> <tr> <td>Savings proposals (per appendix 4)</td> <td style="text-align: right;">(10.26)</td> </tr> <tr> <td><b>Revised Budget Shortfall</b></td> <td style="text-align: right;"><b>11.26</b></td> </tr> </tbody> </table>		<b>2021/22 £M</b>	Budget shortfall per February 2020 MTF5	3.87	Net budget pressures	21.70	Collection Fund deficit carried forward & reduced income	7.95	<b>Sub-Total</b>	<b>33.52</b>	Less:		Estimate of additional funding from SR20	(12.00)	Savings proposals (per appendix 4)	(10.26)	<b>Revised Budget Shortfall</b>	<b>11.26</b>
	<b>2021/22 £M</b>																		
Budget shortfall per February 2020 MTF5	3.87																		
Net budget pressures	21.70																		
Collection Fund deficit carried forward & reduced income	7.95																		
<b>Sub-Total</b>	<b>33.52</b>																		
Less:																			
Estimate of additional funding from SR20	(12.00)																		
Savings proposals (per appendix 4)	(10.26)																		
<b>Revised Budget Shortfall</b>	<b>11.26</b>																		
	<b><u>Budget Gap</u></b>																		
40.	The additional grant income from SR20 and savings proposals put forward only go partway to addressing the estimated budget shortfall in 2021/22. If £5.23M of uncommitted reserves is used to help meet the shortfall the gap would reduce to £6.03M. Taking 2% of the 3% Adult Social Care Precept flexibility announced in SR20 would leave a remaining gap of £3.97M as set out in Table 5 below.																		
41.	<p><b><u>Table 5 – Updated Budget Shortfall</u></b></p> <table border="1"> <thead> <tr> <th></th> <th style="text-align: right;"><b>2021/22 £M</b></th> </tr> </thead> <tbody> <tr> <td>Revised Budget Shortfall</td> <td style="text-align: right;">11.26</td> </tr> <tr> <td>Less:</td> <td></td> </tr> <tr> <td>Provisional use of uncommitted reserves</td> <td style="text-align: right;">(5.23)</td> </tr> <tr> <td><b>Sub-total</b></td> <td style="text-align: right;"><b>6.03</b></td> </tr> <tr> <td>Less:</td> <td></td> </tr> <tr> <td>Extra income if 2% ASC Precept increase applied</td> <td style="text-align: right;">(2.06)</td> </tr> <tr> <td><b>Updated Budget Shortfall</b></td> <td style="text-align: right;"><b>3.97</b></td> </tr> </tbody> </table>		<b>2021/22 £M</b>	Revised Budget Shortfall	11.26	Less:		Provisional use of uncommitted reserves	(5.23)	<b>Sub-total</b>	<b>6.03</b>	Less:		Extra income if 2% ASC Precept increase applied	(2.06)	<b>Updated Budget Shortfall</b>	<b>3.97</b>		
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42.	Work is ongoing to identify further proposals to mitigate pressures, identify efficiency improvements or generate income to address the remaining gap in order that a balanced budget for 2021/22 can be set in February 2021.																		

43.	<p>The uncertainty around the council's finances will persist into 2021/22 and will call for continued adaptability and agility in meeting the financial challenges faced, especially in relation to COVID-19. For example, during the current year a mid year budget update was required and was submitted to Full Council in September to address the issues arising. Also, enhancing IT investment to help promote home working has already been required this year with a report submitted to council. As the council gets to grips with the wider impact of COVID-19, on spending, on income and on working practices plans can be introduced, and consultation initiated where needed, outside the usual budget timetable. This will include bringing forward at future council meetings new financial proposals, for both in-year and covering future years beyond 2021/22, to maximise our resilience and responsiveness to the pandemic crisis.</p>
<b><u>Capital Programme</u></b>	
44.	<p>A number of amendments are proposed to the existing capital programme as follows:</p> <ul style="list-style-type: none"> <li>• Bitterne Hub will be reduced from £32.9M to £30M, and the profile of spend delayed from 2021/22 to 2022/23.</li> <li>• Outdoor Leisure – the total scheme value is £16.85M. £4.40M was originally due to be incurred in 2021/22. The scheme will now be re-phased by a year.</li> <li>• £2.9M of fleet vehicles was due for purchasing in 2021/22. £0.5M is to be re-phased into 2022/23.</li> <li>• The Smarter Ways of working programme will be scaled back by £0.5M, reducing the borrowing needed by the council.</li> <li>• A funding change is proposed for the Highways programme, whereby the Highways gainshare from 2019/20 – which arises from efficiency savings in the contract with Balfour Beatty and amounts to around £0.4M, will be used to help fund, in part, the Highways capital programme in 2021/22.</li> </ul> <p>Appendix 5 provides details of the changes to the capital programme.</p>
45.	<p>Bitterne Hub and the Outdoor Leisure centre proposals will be re-assessed in the light of COVID-19, given that the leisure and gym sector has faced particular difficulties this year.</p>
46.	<p>As reported to Full Council in November, the council has adopted a new IT strategy to overhaul its use of IT over the next five years. This will enhance flexibility and adaptability for working outside the office, as well as streamlining systems and processes. Ultimately, additional savings are expected to be facilitated by this investment.</p> <p>Further details on an updated capital programme will be submitted to Full Council in February 2021.</p>
<b>Housing Revenue Account (HRA)</b>	
47.	<p>The budget, capital programme and business plan for the HRA is currently under review. It will be brought forward, allowing for any impact from COVID-19, as a part of the budget papers scheduled for Cabinet and Full Council in February 2021.</p>

	<b><u>Budget Consultation</u></b>
48.	The draft savings proposals that have been put forward have been subject to consultation with the Executive Management Board (EMB) and relevant Cabinet Members.
49.	The Executive will undertake a public engagement exercise on their draft budget proposals following the production of this report. The Leader and the Cabinet are keen to receive feedback on the proposals and on the potential impact they may have to help finalise the Executive's budget to be recommended to Full Council in February 2021.
50.	Like other councils, Southampton City Council is facing a very challenging financial position, with additional costs/loss of income due to the pandemic alongside increasing demand for services, particularly social care.
51.	The aim of this public engagement exercise is to: <ul style="list-style-type: none"> <li>a) Make residents aware of the significant financial pressures the Council is facing;</li> <li>b) Ensure residents are aware of any savings that are being proposed and what this will mean for them;</li> <li>c) Enable residents, businesses and stakeholders to comment and raise any impacts the proposals may have;</li> <li>d) Ensure that resident feedback is taken into account when final decisions are made;</li> <li>e) Provide a summary of feedback received and how these have influenced the final decision.</li> </ul>
52.	The formal engagement exercise will run from 16 December 2020 to 19 January 2021. The exercise will be based around an online questionnaire and paper copies will also be made available where required.
	<b><u>Equality and Safety Impact Assessments</u></b>
53.	The Public Sector 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.
54.	While the Public Sector Equality Duty does not impose a legal requirement to conduct an Equality Impact Assessment, 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 other relevant impacts including Community Safety (Section 17 of the Crime and Disorder Act), poverty and health and wellbeing, 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.
55.	Draft individual Equality and Safety Impact Assessments (ESIAs) have been completed by the council's Executive Management Board for those proposals contained in Appendix 4 that have been identified as requiring such an assessment, as they could have an impact on a particular group or individuals. The draft individual ESIAs are available in Members' Rooms and will be published alongside the Budget consultation.
56.	The individual ESIAs have been analysed to consider the cumulative impacts the draft savings proposals may have on particular groups and the mitigating

	actions that could be considered. In order to give the right perspective to the draft savings proposals, the Cumulative Impact Assessment has to be considered in light of the available information on the City's profile, service user and non-user information and staffing profiles as well as the proportion of the council's budget that is currently spent on targeted groups or communities. The Cumulative Impact Assessment is available in Members' Rooms and will be published alongside the Budget proposals to inform the public engagement exercise.
	<b><u>Timetable</u></b>
57.	The draft 2021/22 local government finance settlement is expected in mid-December 2020. This will include the council's allocation of Revenue Support Grant, Business Rates Top-Up Grant and New Homes Bonus. The council's share of Social Care Grant is expected to be part of the settlement and the allocation of funding towards 2020/21 Collection Fund losses announced in SR20 may also be included.
58.	Setting of the Council Tax base and approval of the Local Council Tax Support Scheme are formally delegated to the Director of Finance & Commercialisation and will take place in late January 2021.
59.	The Cabinet will put forward its final proposals for the 2021/22 Budget, MTFS and Capital Programme at its meeting on 23 February 2021, taking into account feedback from the public engagement exercise outlined above.
60.	Full Council will set the 2021/22 Budget and agree the band D Council Tax, MTFS and Capital Programme on 24 February 2021.
<b>RESOURCE IMPLICATIONS</b>	
<b>Capital/Revenue Implications</b>	
61.	The capital and revenue implications are fully detailed within the report.
<b>Staffing</b>	
62.	Staffing reductions contained within savings proposals are expected to be achieved through removal of vacant posts or normal staff turnover. The current estimated effect is around 16.5 to 20 Full Time Equivalent (FTE) posts.
<b>Property/Other</b>	
63.	None, other than those detailed in the report.
<b>LEGAL IMPLICATIONS</b>	
<b>Statutory power to undertake proposals in the report</b>	
64.	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.
65.	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 business-like 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.
66.	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. 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.
67.	The legal significance of the Annual Budget derives from the Council's duty under the Local Government Finance Act 1992 (the 1992 Act) to set a balanced budget. Failure to make a lawful Council Tax on or before 11 March 2021 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. 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.
68.	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.
69.	Under Section 114 (2) and 114 (3) of the Local Government Finance Act 1988, the Chief Financial Officer 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.
70.	Section 25 of the Local Government Act 2003 imposes a specific duty on the CFO (Section 151 officer) to formally report to Council at the time the budget is considered and the Council Tax is set on the robustness of the budget estimates and the adequacy of financial reserves. This report will be brought forward alongside the Budget and Council Tax Setting Report to Full Council in February.
71.	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.
<b><u>Other Legal Implications:</u></b>	
72.	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 Executive Management Team, the proposals contained in this report have been checked from a legal viewpoint.

<b>RISK MANAGEMENT IMPLICATIONS</b>	
73.	There remains a significant risk from the economic climate due to the impact of the COVID-19 pandemic and the end of the transition period for the UK's exit from the EU and any potential impact on funding or on demand for council services.
74.	Any further impact from risk will be reviewed as part of the update of the MTFS to be approved by Full Council in February 2021.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
75.	The Medium Term Financial Strategy and the Budget are key parts of the Policy Framework of the Council and a Budget and Council Tax for 2021/22 must be proposed by the Cabinet for consideration by the Full Council under the Constitution.

<b>KEY DECISION?</b>	<b>Yes</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	All
<u>SUPPORTING DOCUMENTATION</u>	
<b>Appendices</b>	
1.	Spending Review 2020
2.	Budget Pressures
3.	2021/22 Assumed Council Tax
4.	Draft Savings Proposals
5.	Changes to the Capital Programme

#### **Documents In Members' Rooms**

1.	Individual ESIA's
2.	Cumulative IA

#### **Equality Impact Assessment**

<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>	<b>Yes</b>
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#### **Data Protection Impact Assessment**

<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>	<b>Yes</b>
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#### **Other Background Documents**

**Other Background documents available for inspection at:**

<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>
1. Council Tax Setting and Related Matters (Council 20 February 2020)	



2.		
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