

<b>DECISION-MAKER:</b>	CABINET		
<b>SUBJECT:</b>	MEDIUM TERM FINANCIAL STRATEGY UPDATE 2019/20 TO 2022/23		
<b>DATE OF DECISION:</b>	15 OCTOBER 2019		
<b>REPORT OF:</b>	CABINET MEMBER FOR RESOURCES		
<b><u>CONTACT DETAILS</u></b>			
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<b>Director</b>	<b>Name:</b>	John Harrison	<b>Tel:</b> 023 8083 4897
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#### **STATEMENT OF CONFIDENTIALITY**

N/A

#### **BRIEF SUMMARY**

This report provides an update on the approved Medium Term Financial Strategy (MTFS) for the period to 2022/23. It provides for significant investment in priority services, does not propose any service reductions and provides support for social care pressures. Overall the strategy reduces the forecast 3 year future financial challenges from nearly £33m to £12m in total. Given the uncertainty of national finances and allocations, the updated strategy only goes up to 2022/23, but the authority continues to plan around a timeline of up to 2025.

The report identifies new pressures and investment needs on the General Fund that have been identified and how it is currently proposed to fund those additional pressures, whilst achieving a balanced budget for 2020/21 and reducing future shortfalls.

The report outlines the next set of the Executive's draft budget proposals for 2020/21 through to 2022/23 to address the budget gap for those years. These will be used as the basis for a conversation and consultation with a range of stakeholders over the coming months.

Analysis on this feedback will be considered by the Cabinet before they finalise their budget proposals that will be recommended to Council on 26th February 2020 when it will set the General Fund and HRA budgets.

The Government has published its Spending Round 2019 and will announce its latest Budget assumptions in the Autumn Statement later in 2019 as well as its provisional finance settlement prior to Christmas. The implications of any announcements made on the Council's position will therefore need to be included in the update to Council in February 2020.

Table 1 identifies the current summary position for the General Fund for the period of the Medium Term Financial Strategy (MTFS), after allowing for the details and proposals included within this report. The table updates the position for recent Government funding announcements and known financial pressures faced by council services.

**Table 1 – General Fund Summary**

	2020/21 £M	2021/22 £M	2022/23 £M
<b>Budget Gap - February 2019</b>	<b>9.5</b>	<b>11.8</b>	<b>11.6</b>
Pressures and Mitigations	6.2	6.2	8.5
Developments/Investment	3.8	4.3	5.9
Savings Proposals	-7.8	-10.3	-11.4
Reduced business rate growth	4.5	4.5	4.5
Spending Round 2019/ Future grant assumptions	-9.9	-7.0	-7.0
Use of reserves	-6.3	-4.8	-4.8
<b>Amended Budget Gap – October 2019</b>	<b>0.0</b>	<b>4.7</b>	<b>7.3</b>

The draft budget is balanced in 2020/21 under these proposals, and there is a reduced budget shortfall in the two subsequent years. Work will continue to reduce the future shortfall of £4.7M and £7.3M identified in the table.

Table 2 below shows the additional capital investment that has been identified.

**Table 2 – Capital Investment Requirements**

	2020/21 £M	2021/22 £M	2022/23 £M	Total £M
<b>Gross Capital Investment</b>	52.5	103.7	87.2	243.4

Total new capital investment of £243.4M (gross) is expected over the three years of these proposals.

Note this total excludes the £200M proposal for a renewed commitment to the commercial property investment fund which is the subject of a separate report to Cabinet and Council.

**RECOMMENDATIONS:**

Cabinet are recommended to:

i)	Note the high level forecast for the General Fund for 2020/21 onwards and subsequent rebasing of budgets, ensuring budgets are on a sound and robust footing.
ii)	Note the pressures which have been included in the forecast which are set out in paragraphs 17 and 18.
iii)	Note the Executive’s initial investment and savings proposals put forward for conversation and consultation in Appendices 3 and 4. Savings amount to a cumulative £29.5M by 2022/23, with a significant contribution from income generating initiatives. New investment under these proposals is estimated at around £14.0M in the revenue budget.
iv)	Note that the Executive’s budget proposals for consultation are based on the assumption that they will recommend a Council Tax increase of 1.99% to Full Council as per paragraph 21.

v)	To note the implications for the Capital Programme and to approve the additions to the capital programme as detailed in paragraph 26 to 28 and give approval to spend.
vi)	Note that the Executive's initial savings set out in Appendices 3, with a clear emphasis on ways to generate income as a key part of ensuring a balanced budget.
vii)	Note the consultation on the Executive's draft budget proposals will commence on 16 <sup>th</sup> October 2019 and note the consultation proposals and methodology set out in paragraph 35.
viii)	Delegate authority to the Chief Financial Officer (CFO), following consultation with the Cabinet Member for Resources, to do anything necessary to give effect to the proposals contained in this report.

### **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 Executive's draft budget for 2020/21 through to 2022/23, which is 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 2020.
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### **DETAIL (Including consultation carried out)**

	<b><u>BACKGROUND</u></b>
5.	Council approved a 4 year MTFs in February 2019, 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.	<p>There are 6 key aims of the Strategy:</p> <ul style="list-style-type: none"> <li>• To provide financial parameters within which budget and service planning should take place;</li> <li>• To ensure the Council sets a balanced budget;</li> <li>• To 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>• To ensure the Council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;</li> <li>• To 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 priority whilst gradually reducing the Council's reliance on Central Government funding; and</li> </ul>

	<ul style="list-style-type: none"> <li>To ensure that the Council's long term financial health and viability remain sound.</li> </ul>										
7.	Table 3 below shows the MTFs position as reported in February 2019.										
8.	<p><u>Table 3 – Funding Gap 2019/20 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>Remaining Savings Requirement</td> <td>9.5</td> <td>11.8</td> <td>11.6</td> <td>32.9</td> </tr> </tbody> </table>		2020/21 £M	2021/22 £M	2022/23 £M	Total £M	Remaining Savings Requirement	9.5	11.8	11.6	32.9
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	<b><u>2019/20 POSITION</u></b>										
9.	<p>The General Fund Revenue forecast position, at the end of August, is an underspend of some £0.08M. The latest initial and provisional forecast for period 6 is that we are still operating within budget parameters.</p> <p>As part of good financial management, a review of the budgets has been undertaken to reflect activity in services. This rebasing is shown at <b>Appendix 1</b>. Any pressures that are expected to continue into 2020/21 and the future included have been accounted for in these proposals and are set out in paragraphs 17 to 18 below. A full rebasing detail will be presented to Cabinet for 2019/20 when the Period 6 budget forecast is presented to the next Cabinet meeting.</p>										
	<b><u>COMPREHENSIVE SPENDING REVIEW AND FAIR FUNDING REVIEW</u></b>										
10.	2019/20 marked the final year of the Comprehensive Spending Review (CSR) and the final year of the 4 year settlement that the council agreed with central government.										
11.	<p>2020/21 was intended to have featured proposals by Government for a fair funding review, a business rates review and a spending review outlining the allocation of funding to local government (at a national level) for a number of years ahead. A social care green paper was also due to be published. This should have provided more information on future funding levels from the Government.</p> <p>However, the Government has delayed its work and consultation on these policy changes. This means that any anticipated impact connected with the changes to the funding system, including the business rate reset (where previous growth from business rates is removed from the settlement figures), is postponed by a year at least. For the purposes of financial planning, we have continued to assume that we are no better or worse off in funding terms from any policy changes resulting from these reviews until more detail is provided.</p>										
12.	Whilst none of the above policies have been delivered, there was an announcement of a single year Spending Round (SR19), covering 2020/21 in early September. Attached at <b>Appendix 2</b> is a summary of its impact compared to the councils existing MTFs assumptions. SR19 clarified some of the assumptions we had already included in the MTFs and introduced some new funding the MTFs had not assumed (in particular around extra social care funding), thereby improving the financial position compared with past assumptions.										

	<p>The appendix shows that extra resources will be available and are expected to total £9.9m in 2020/21. The actual spending round is subject to it being incorporated within the Chancellor's Autumn statement later in the year. At this stage there is no reason to believe that these numbers will change significantly and therefore are appropriate for budget planning purposes.</p> <p>The question remains that given it is only funding for one year, then what will happen from 2021/22 onwards? It is unreasonable to assume that we would face a cliff edge of a drop in funding of £9.9m given that this is being injected to support children's and adult social care, where it is clear on-going demand is increasing. For planning purposes, I am assuming that whilst there may be a drop, there will still be a substantial sum available. For the purpose of our financial plan I have assumed £7m per annum is received beyond 2020/21.</p>
13.	<p>The actual allocations of additional social care funding councils from the SR is subject to a formal consultation which concludes on 31 October 2019.</p> <p>The implications of any announcements subsequently made on the Council's position will therefore need to be included in the update to Council in February 2020 on the budget.</p>
14.	<p><u>Collection Fund</u></p> <p>The collection fund for council tax and business rates currently shows a broadly balanced position for 2019/20. This will be continued to be monitored.</p> <p><u>Business Rates</u></p> <p>A review of business rates estimated receipts for 2020/21 has identified a shortfall compared with assumptions in the MTFS. Much of this arises from an optimistic assumption around the delivery of a major development during 2019/20. In looking at the 2020/21 forecast compared with the MTFS it is estimated to be £4.5M short, analysed as follows:</p> <ul style="list-style-type: none"> <li>• Major development profiled for delivery too soon – full year effect £2.5M</li> <li>• A general development overestimation - £0.9M</li> <li>• Increase in business rates reliefs being experienced - £0.9M</li> <li>• Reduction in S31 business rates compensation grants - £0.2M</li> </ul> <p>Southampton applied to the Government and was successful in becoming one of a limited number of 75% Business Rates Retention pilots for 2019/20, working in partnership alongside Portsmouth City Council and the Isle of Wight Council. This will not continue in 2020/21, as the Government is not running any further pilots. The council's budget strategy assumes a benefit of £2.0m will be realised in 2019/20 from the pilot, via additional business rates. This sum has already been factored into the 2020/21 budget (the 1 year delay allows confirmation of the actual sum realised in year). The benefit, when compared with the normal 50% retention of business rate growth, is regularly monitored during the year.</p> <p>The growth assumed is cautious, with developments around West Quay Phase 3, around Bargate and Toysrus not banked in forecasts at this stage.</p>

15.	Subject to discussions with partners there may be a potential one-off sum of up to £3M available to Southampton City Council from being a part of this business rate pilot arrangement, in addition to the benefit of £2.0M already factored into the budget. However, this will be subject to actual business rate proceeds and agreement with partner authorities regarding allocations and hence is not factored into budget estimates.																
<b>SAVINGS</b>																	
16.	<p>To deliver savings that go beyond that of general reductions and potential salami slicing, a review was undertaken this year to look at more strategic interventions that would either generate income or reduce costs.</p> <p>Following these reviews a series of sessions were held where Portfolio holders and Service directors were challenged around the cost base of services and the opportunities to reduce them.</p> <p>The final schedule of savings proposed and income generation is attached at <b>Appendix 3</b>. The total proposed are set out in table 4 below:</p> <p><b>Table 4 :Savings</b></p> <table border="1" data-bbox="311 943 1193 1120"> <thead> <tr> <th></th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> </tr> </thead> <tbody> <tr> <td><b>Reductions in budgets</b></td> <td><b>3.8</b></td> <td><b>6.1</b></td> <td><b>7.2</b></td> </tr> <tr> <td><b>Income generation</b></td> <td><b>4.0</b></td> <td><b>4.2</b></td> <td><b>4.2</b></td> </tr> <tr> <td><b>Total Savings</b></td> <td><b>7.8</b></td> <td><b>10.3</b></td> <td><b>11.4</b></td> </tr> </tbody> </table>		2020/21 £M	2021/22 £M	2022/23 £M	<b>Reductions in budgets</b>	<b>3.8</b>	<b>6.1</b>	<b>7.2</b>	<b>Income generation</b>	<b>4.0</b>	<b>4.2</b>	<b>4.2</b>	<b>Total Savings</b>	<b>7.8</b>	<b>10.3</b>	<b>11.4</b>
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<b>REBASING OF BUDGETS</b>																	
17.	<p>Budget monitoring has identified, for a variety of reasons that budgets have not been set at an appropriate level for the pressure faced, for example social care demand. The end result of this is that every budget monitoring report seeks to repeat some of the same variations and explanations.</p> <p>The overall impact on the rebasing in 2019/20 is cost neutral. The schedule of changes is attached at <b>Appendix 1 and Appendix 1A</b> for Adults Social Care. This shows at period 5 (end of August) that the council is living within its resources.</p>																
18.	<p>The effect of the rebasing of budgets in 2020/21 shows that there is extra cost pressures to be taken into account as follows:</p> <ul style="list-style-type: none"> <li>• Increased demand for Children’s social care</li> <li>• Increased Demand for Adults social care</li> <li>• Increased demand in other areas such as home to school transport</li> <li>• Unachieved savings targets</li> <li>• The above is offset by additional income</li> </ul> <p>This totals £4.2M net additional cost pressure. Additionally, provision has been made for rising costs and numbers of care packages identified through budget monitoring work which amounts to approximately £2M from 2020/21 onwards.</p>																
<b><u>INVESTMENT IN SERVICES</u></b>																	

19.

The council needs a clear direction of travel for the delivery of key projects to meet priority areas of focus. These projects have been split over the outcomes for the council, as shown in the following table. More details are shown in **appendix 4**.

**Table 5: Investment Proposals**

Description	2020/21	2021/22	2022/23	Total
	Revenue	Revenue	Revenue	Revenue
	£000s	£000s	£000s	£000s
A city of culture by 2025	319	27	192	539
Delivery of Bitterne Community Hub Project	300	0	50	350
Global partnership Programme	20	20	20	60
Green City Charter	207	226	226	659
People and place planning through the Local plan	327	112	0	439
Connected Southampton 2040 (Local Transport Plan 4)	212	714	714	1,640
Connected City	0	100	0	100
Future of Work (inquiry response)	140	125	55	320
Itchen bridge payment (contactless)	248	286	286	820
Itchen flood defences	46	50	50	146
implementation of better client handling (new case management system)	104	0	0	104
Improving surplus generated by our services to reinvest in council services	185	191	191	567
Digital Customer Experience Improvement	98	0	0	98
Smart Ways Of Working	135	91	91	317
Organisational Development	200	200	200	600
Reducing overheads and streamlining our processes to improve outcomes and services	273	45	45	363
Safer Communities	314	216	162	692
Children/Young People get a good start in life	500	500	500	1,500
<b>Sub total</b>	<b>3,626</b>	<b>2,903</b>	<b>2,782</b>	<b>9,311</b>
Capital Financing Budget	140	1350	3162	4,652
<b>Investment Total</b>	<b>3,766</b>	<b>4,253</b>	<b>5,944</b>	<b>13,963</b>

\*Note figures have rounded in this table, which may produce small difference to the totals

The table indicates additional investment across a range of proposals in the next three years, totalling £3.8M in 2020/21 and totalling around £14.0M over the three years.

	<b>CLOSING THE GAP</b>																																							
20.	<p>The council has significant unallocated reserves that have been held for a variety of reasons – such as taxation, MTFS reserve. As part of streamlining budget processes and resources as forecast at the end of 2019/20, the position as rationalised is estimated to be as follows:</p> <ul style="list-style-type: none"> <li>• Minimum Working balance - £10M</li> <li>• Insurance Fund - £3.0M</li> <li>• Organisational Design (OD) Reserve - £7.1M</li> <li>• Uncommitted funds to support MTFS delivery are estimated at approximately £32M.</li> </ul>																																							
21.	<p><u>Council Tax Increase</u></p> <p>The existing assumption is for a 2% increase in tax. Government is consulting on a further 2% Adults Social Care precept in addition to this general increase. The proposals in this report assume a total of 2% overall only.</p>																																							
	<b>SUMMARY GENERAL FUND POSITION</b>																																							
22.	Table 6 summaries the details set out in the above paragraphs.																																							
23.	<p><u>Table 6 –</u> <u>MTFS</u> <u>Summary</u> <u>Position</u></p> <table border="1"> <thead> <tr> <th></th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> </tr> </thead> <tbody> <tr> <td><b>Budget Gap - February 2019</b></td> <td>9.5</td> <td>11.8</td> <td>11.6</td> </tr> <tr> <td>Pressures and Mitigations</td> <td>6.2</td> <td>6.2</td> <td>8.5</td> </tr> <tr> <td>Developments/Investment</td> <td>3.8</td> <td>4.3</td> <td>5.9</td> </tr> <tr> <td>Savings Proposals</td> <td>-7.8</td> <td>-10.3</td> <td>-11.4</td> </tr> <tr> <td>Funding Reduction</td> <td>4.5</td> <td>4.5</td> <td>4.5</td> </tr> <tr> <td>Spending Round 2019 and grant assumptions</td> <td>-9.9</td> <td>-7.0</td> <td>-7.0</td> </tr> <tr> <td>Use of reserves</td> <td>-6.3</td> <td>-4.8</td> <td>-4.8</td> </tr> <tr> <td><b>Amended Budget Gap – October 2019</b></td> <td><b>0.0</b></td> <td><b>4.7</b></td> <td><b>7.3</b></td> </tr> </tbody> </table>		2020/21 £M	2021/22 £M	2022/23 £M	<b>Budget Gap - February 2019</b>	9.5	11.8	11.6	Pressures and Mitigations	6.2	6.2	8.5	Developments/Investment	3.8	4.3	5.9	Savings Proposals	-7.8	-10.3	-11.4	Funding Reduction	4.5	4.5	4.5	Spending Round 2019 and grant assumptions	-9.9	-7.0	-7.0	Use of reserves	-6.3	-4.8	-4.8	<b>Amended Budget Gap – October 2019</b>	<b>0.0</b>	<b>4.7</b>	<b>7.3</b>			
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24.	<p><u>2021/22 Onwards Budget Gap</u></p> <p>Table 6 shows there is a budget gap in 2021/22 of £4.7M and £7.3M the following year.</p> <p>This can be viewed to be a sustainable plan. The current budget identified a shortfall over the three years of about £33m. The proposals in this budget paper reduce this to £12.0M in total – close to a third of the initial financial challenge.</p>																																							
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25.	We await confirmation of the grant for public health in 2020/21. This grant is expected to continue to be ring-fenced, and therefore only allocated to public health activities.																																							
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26.	New capital investment will play a significant role in enhancing local facilities and providing better connectivity for residents and businesses.																																																																						
27.	Table 7 below details the new additions to the capital programme that have been identified and the anticipated sources of financing are in Table 8. It should be noted that elements of the funding from outside the authority are in some cases yet to be confirmed, the most significant of which will be funds for Transforming Cities Fund and which would support the Connected Southampton initiative.																																																																						
28.	<p><b>Table 7 – New Capital Investments</b></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>City of culture</td> <td>0.2</td> <td>0.3</td> <td></td> <td>0.5</td> </tr> <tr> <td>Bitterne Hub</td> <td></td> <td>27.3</td> <td></td> <td>27.3</td> </tr> <tr> <td>Green City Charter</td> <td>1.0</td> <td></td> <td>20.0</td> <td>21.0</td> </tr> <tr> <td>ToysRus site</td> <td></td> <td>26.7</td> <td></td> <td>26.7</td> </tr> <tr> <td>Connected Southampton</td> <td>42.0</td> <td>37.0</td> <td>50.0</td> <td>129.0</td> </tr> <tr> <td>Itchen Bridge*</td> <td>0.1</td> <td></td> <td></td> <td>0.1</td> </tr> <tr> <td>Children Res Centre</td> <td>0.8</td> <td></td> <td></td> <td>0.8</td> </tr> <tr> <td>Highways capital prog</td> <td>6.0</td> <td>7.0</td> <td>8.0</td> <td>21.0</td> </tr> <tr> <td>Digital customer experience</td> <td>0.4</td> <td></td> <td></td> <td>0.4</td> </tr> <tr> <td>Smarter ways of working</td> <td>1.6</td> <td>1.0</td> <td>1.0</td> <td>3.6</td> </tr> <tr> <td>Outdoor Leisure</td> <td>0.2</td> <td>4.4</td> <td>8.2</td> <td>12.8</td> </tr> <tr> <td>Streamlining Processes</td> <td>0.2</td> <td></td> <td></td> <td>0.2</td> </tr> <tr> <td><b>Total New Capital Investment</b></td> <td><b>52.5</b></td> <td><b>103.7</b></td> <td><b>87.2</b></td> <td><b>243.4</b></td> </tr> </tbody> </table> <p><i>*Note: in programme for 2019/20 (contactless payment)</i></p>		2020/21 £M	2021/22 £M	2022/23 £M	Total £M	City of culture	0.2	0.3		0.5	Bitterne Hub		27.3		27.3	Green City Charter	1.0		20.0	21.0	ToysRus site		26.7		26.7	Connected Southampton	42.0	37.0	50.0	129.0	Itchen Bridge*	0.1			0.1	Children Res Centre	0.8			0.8	Highways capital prog	6.0	7.0	8.0	21.0	Digital customer experience	0.4			0.4	Smarter ways of working	1.6	1.0	1.0	3.6	Outdoor Leisure	0.2	4.4	8.2	12.8	Streamlining Processes	0.2			0.2	<b>Total New Capital Investment</b>	<b>52.5</b>	<b>103.7</b>	<b>87.2</b>	<b>243.4</b>
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Highways capital prog	6.0	7.0	8.0	21.0																																																																			
Digital customer experience	0.4			0.4																																																																			
Smarter ways of working	1.6	1.0	1.0	3.6																																																																			
Outdoor Leisure	0.2	4.4	8.2	12.8																																																																			
Streamlining Processes	0.2			0.2																																																																			
<b>Total New Capital Investment</b>	<b>52.5</b>	<b>103.7</b>	<b>87.2</b>	<b>243.4</b>																																																																			
	<p><b>Table 8 – Capital Funding</b></p> <table border="1"> <thead> <tr> <th>Financed by:</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>Council Resources</td> <td>8.9</td> <td>53.0</td> <td>23.2</td> <td>85.1</td> </tr> <tr> <td>Third Party Contributions</td> <td>1.1</td> <td>9.6</td> <td>12.8</td> <td>23.5</td> </tr> <tr> <td>Capital Receipts</td> <td>-</td> <td>3.5</td> <td>-</td> <td>3.5</td> </tr> <tr> <td>Government Grant</td> <td>42.4</td> <td>37.6</td> <td>51.2</td> <td>131.2</td> </tr> <tr> <td>Other</td> <td>0.1</td> <td>-</td> <td>-</td> <td>0.1</td> </tr> <tr> <td><b>Total Financing</b></td> <td><b>52.5</b></td> <td><b>103.7</b></td> <td><b>87.2</b></td> <td><b>243.4</b></td> </tr> </tbody> </table>	Financed by:	2020/21 £M	2021/22 £M	2022/23 £M	Total £M	Council Resources	8.9	53.0	23.2	85.1	Third Party Contributions	1.1	9.6	12.8	23.5	Capital Receipts	-	3.5	-	3.5	Government Grant	42.4	37.6	51.2	131.2	Other	0.1	-	-	0.1	<b>Total Financing</b>	<b>52.5</b>	<b>103.7</b>	<b>87.2</b>	<b>243.4</b>																																			
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	<b>HOUSING REVENUE ACCOUNT</b>																																																																						
29.	Since the current MTFs position was approved in February 2019 there is need to review the HRA. This will be presented at a future Cabinet meeting.																																																																						
	<b>RESERVES AND BALANCES</b>																																																																						
30.	To ensure proposals are considered in a full financial picture, it is important to set out the expected position on earmarked reserves and the General Fund balance.																																																																						

31.	<p>The S151 officer has a responsibility to advise on the adequacy of reserves and balances. As part of streamlining budget processes and resources, as forecast at the end of 2019/20, the position as rationalised is estimated to be as follows:</p> <ul style="list-style-type: none"> <li>• Minimum Working balance - £10M</li> <li>• Insurance Fund - £3.0M</li> <li>• Organisational Design (OD) Reserve - £7.1M</li> </ul> <p>Uncommitted funds to support MTFS delivery are estimated at approximately £32M. It is currently estimated that available corporate reserves will stand at around £14.5M to £15M of uncommitted funds by the end of the three years.</p>
32.	<p>The financial risks facing the Council in the medium term are assessed within the MTFS, which is part of the budget report considered in February. This includes assessing the risk of continuing reductions in Central Government Funding. The subsequent budget shortfalls that the Council then faces and overall local and national economic factors can affect the financial stability of the council. The risk also will need to cope with any demand pressures, reductions in income, non-delivery of savings targets etc.</p>
	<p><u>General Fund Balance</u></p>
33.	<p>The General Fund Balance is forecast to be £10M at the end of 2019/20 providing the current year financial forecast remains as expected. The required level of balance is determined by assessing the level of risk the Council faces and this balance is regarded as adequate. This sum will still remain untouched as a result of this budget strategy.</p>
34.	<p>Obviously when the Council is facing significant financial challenges, with increasing demand levels the level of risk is heightened. The assessed minimum balance will be reviewed again for the MTFS update in February 2020, taking into consideration both risk and affordability.</p>
	<p><b>CONSULTATION</b></p>
35.	<p>Where new proposals have been put forward these have been subject to consultation with the Council Management Team (CMT) and relevant Cabinet Members.</p> <p>The Executive will undertake an extensive consultation process on their initial draft budget proposals following the production of this report. The Leader and the Cabinet are keen to listen to any new ideas on how to reduce costs, to receive feedback on the proposals and on the potential impact of the proposals to help to finalise the Executive's budget to be recommended to Full Council in February 2020.</p> <p>Southampton City Council is facing a challenging financial position, at a time when demand for certain services such as adult and children's social care continues to increase.</p> <p>Therefore the aim of this consultation is to:</p> <ol style="list-style-type: none"> <li>a. Communicate clearly and make residents aware of the financial pressures the council is facing.</li> <li>b. Ensure residents understand what is being proposed in the draft 2020/21 budget and onwards to 2022/23 via this paper and are aware of what this will mean for them.</li> </ol>

- c. Enable any resident, business or stakeholder who wishes to comment on the proposals the opportunity to do so, allowing them to raise any impacts the proposals may have.
- d. Ensure that the results are analysed in a meaningful, timely fashion, so that feedback is taken into account when final decisions are made.
- e. Provide feedback on the results to the consultation and how these results have influenced the final decision.

For the public consultation on the draft 2020/21 budget a consultation process will run from 16<sup>th</sup> October 2019 to 8<sup>th</sup> January 2020 where responses can be made. The overarching consultation will be based around an online questionnaire and paper copies will also be made available. As a part of the main budget consultation affected service user consultation will take place on a service by service basis led by respective service managers and will be conducted in a way that is proportionate and appropriate to the budget proposal and service.

#### Equality and Safety Impact Assessments

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.

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 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. In addition, the assessments take into account the impact on poverty and health and wellbeing.

Draft individual Equality and Safety Impact Assessments (ESIAs) have been completed by the Council's Management Team for those proposals contained in **Appendix 3** and as detailed in the report that they identified require 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.

The individual ESIAs have been analysed to consider the cumulative impacts the draft budget proposals may have on particular groups and the mitigating actions that could be considered. In order to give the right perspective to the draft budget 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 consultation.

<b>RESOURCE IMPLICATIONS</b>	
<b>Capital/Revenue Implications</b>	
36.	The capital and revenue implications are fully detailed within the report.
37.	The proposals would lead to an overall investment in human resources within the council.
<b>Property/Other</b>	
38.	None, other than those detailed in the report.
<b>LEGAL IMPLICATIONS</b>	
<b>Statutory power to undertake proposals in the report</b>	
39.	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.
40.	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.
41.	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.
42.	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 2020 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.
43.	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.
44.	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.
45.	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.
46.	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>Other Legal Implications:</b>	
47.	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, the proposals contained in this report have been checked from a legal viewpoint.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
<b>Local Implications</b>	
48.	<u>The United Kingdom's Exit from the European Union</u> There remains a significant risk from the economic climate due to Brexit and any potential impact on funding or on demand for council services. These are covered both by the MTFS reserve and by the contingencies. Government has allocated funds (of approx. £0.7M to Southampton) to promote councils being prepared for the UK's exit from the EU. Additionally, any further risks arising from Brexit will need to be considered, with the implications reflected in the update of the MTFS to Council in February 2020.
49.	Any further impact from risk will be reviewed as part of the update of the MTFS to be reported to be approved by Council in February 2020.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
50.	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 2020/21 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.	Budget Rebasing (including Adults Social care at 1a
2.	Spending Round 2019
3.	Savings Proposals
4.	Investment

**Documents In Members' Rooms**

1.	Individual ESIA's
2.	

**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.	
2.	