

<b>DECISION-MAKER:</b>	<b>CABINET</b>		
<b>SUBJECT:</b>	<b>UPDATE OF MEDIUM TERM FINANCIAL STRATEGY AND BUDGET 2017/18 to 2020/21</b>		
<b>DATE OF DECISION:</b>	<b>14 NOVEMBER 2017</b>		
<b>REPORT OF:</b>	<b>CABINET MEMBER FOR FINANCE</b>		
<b><u>CONTACT DETAILS</u></b>			
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<b>STATEMENT OF CONFIDENTIALITY</b>
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N/A
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<b>EXECUTIVE SUMMARY</b>
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This report provides an update on the approved Medium Term Financial Strategy (MTFS) for the period 2017/18 to 2020/21 and provides further information on the budget position for 2018/19 and later years for the General Fund and the Housing Revenue Account (HRA).

The report identifies new pressures on the General Fund that have been identified and how it is currently proposed to fund those additional pressures. In addition, for the HRA, the report details draft savings proposals to close the resulting budget gap. The proposals will be used as the basis for consultation, where relevant, with a range of stakeholders. Analysis on consultation feedback, if undertaken, will be considered by the Cabinet before they finalise their budget proposals that will be recommended to Council on 13th February 2018 when it will set the General Fund and HRA Revenue budgets.

The Government will announce its latest Budget assumptions in the Autumn Statement on 22nd November 2017. The implications of any announcements made on the Councils position will therefore need to be included in the update to Council in February 2018.

<b>RECOMMENDATIONS:</b>
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	(i)	To note that any implications of announcements made in the Autumn Statement on the Councils position will be included in the MTFS update to Council in February 2018.
	(ii)	To note that the report identifies potential additional general fund pressures totalling £5.87M as detailed in paragraphs 21 to 24 along with the proposed funding mitigations.
	(iii)	To note that further proposals will need to be considered to address the 2019/20 and future years budget gap and that a further update will be provided in the update of the MTFS report to Council in February 2018.
		To note the position on the Housing Revenue Account as detailed in paragraphs 42

		to 51 including the need to make savings of £3.94M in 2018/19.
	(iv)	To note that should any formal budget consultation be required it will be undertaken as necessary.
	(v)	To note that if any budget proposals impact on staffing, consultation will be undertaken in line with legislation and the Councils agreed processes before proposals are implemented.
	(vi)	To note and ratify the decision to submit a Business Rate Pilot application for 2018/19 as part of a pool with Portsmouth City Council and the Isle of Wight Council as detailed in paragraph 29.
	(vii)	To delegate authority to the Service Director – Finance & Commercialisation (S151 Officer), following consultation with the Cabinet Member for Finance, to do anything necessary to give effect to the proposals contained in this report.

### **REASONS FOR REPORT RECOMMENDATIONS**

1.	The Council is a large organisation managing the delivery of a vast range of businesses either directly or through/with others. Its core purpose is to improve the quality of life for residents and effective financial management is key to this. It is important that Members are aware of the major financial challenges and opportunities and that they make informed decisions. The Council regularly revises its Medium Term Financial Strategy (MTFS) so that the financial position is clear for budget proposals to be drawn up for the forthcoming year.
2.	The Council introduced a focused approach on Outcomes Based Planning and Budgeting in 2017/18 which looks at utilising decreasing resources towards agreed priorities and outcomes. Work will continue to further implement this process.
3.	The Council approved a two year balanced budget for 2017/18 and 2018/19. However, additional pressures have been identified which need to be mitigated in 2018/19. At this stage there are no savings proposals identified within the General Fund however, savings proposals are being developed with regards to the HRA. Some of the proposals may impact on services users, residents, businesses, partners and staff and therefore it is important for the Council to start consultation with a range of stakeholders before presenting final proposals to Council in February 2018.

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

4.	Alternative options for revenue spending and MTFS assumptions form an integral part of the development of the overall MTFS that will be considered at the Council budget setting meeting on 13 February 2018. The current set of assumptions contained within this report will be reviewed on a regular basis but represent the most up to date information available at this time.
5.	Part of setting the General Fund Budget and Medium Term Financial Strategy and Model requires a view to be taken on the revenue cost of capital to the Authority and proposals are currently considered by the Council's Capital Board in order to ensure the most appropriate use of capital resources in meeting the Council's desired outcomes and the Executive commitments. A Capital Programme Update report is included elsewhere on the agenda.

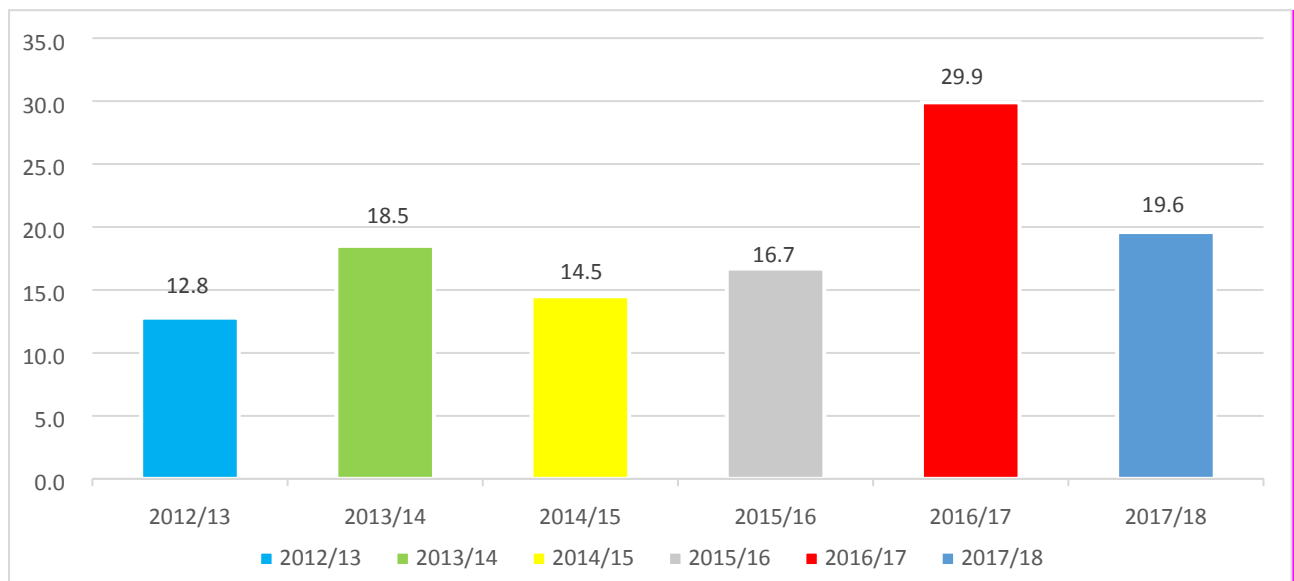
### **DETAIL (Including consultation carried out)**

**BACKGROUND**

6. Since 2011/12 the Council has faced year on year reductions in government grants, of which the Revenue Support Grant (RSG) was a significant source of income. The current MTFS assumptions were based on Central Government Funding proposals pre the General Election in June 2017. Under those proposals the intention was to radically change the way local authorities are funded by moving to full 100% business rate retention and phasing out the Revenue Support Grant by 2020. Alongside this there would be additional responsibilities for local government to ensure the move is fiscally neutral to Central Government plans. Business Rates will then be the main source of income to fund General Fund Council services.

7. The proposed changes to the business rate retention required primary legislation amendments and was incorporated into the Local Government Finance Bill 2017. However, the bill was not ratified following the General Election with the focus now being on negotiations for Brexit. However, there is ministerial support to continue working towards to 100% Business Rate Retention and reviewing relative needs via a fairer funding formula. A timeline for this has not yet been announced. In light of this it is not possible to update the current MTFS assumptions however, as further information is provided, the assumptions will be reviewed and any further update will be included in the MTFS Update report to Council in February 2018.

8. Over the last 6 years the Council has approved savings of £112.0M but to be sustainable in the future will require us to continue to stop, change, reduce and in some cases, develop new services.



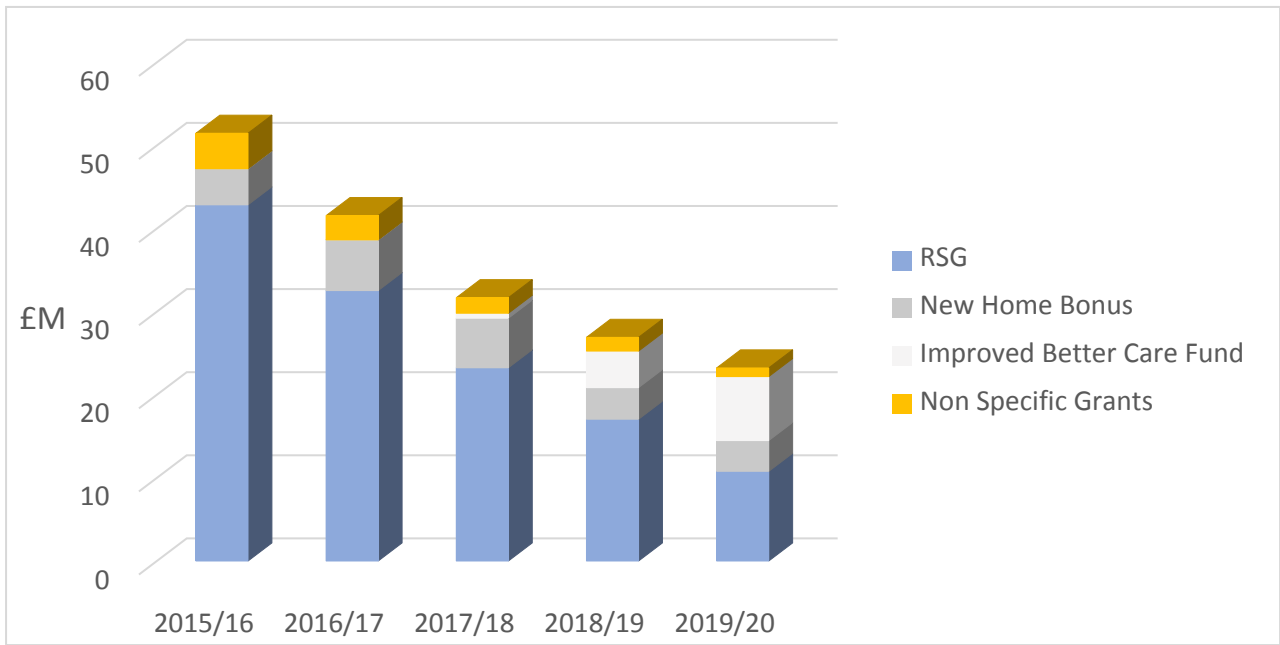
9. The MTFS, approved by Council February 2017, introduced a different approach to financial management with the aim of aligning delivery of the Executive’s key outcomes (described in the Council Strategy 2016-20) with affordability. This aims to help the Council to invest its reducing resources in activities that have the greatest impact on the delivery of priority outcomes. The Council also wants to achieve better outcomes for all residents by improving quality and performance, managing demand of its high cost services and becoming more commercial. Therefore financial plans were drawn up on the basis of the four main outcomes and these are supported by an internal plan to enable the Council to become a modern and sustainable organisation.

10. The Council aims to make a difference and in doing so, has agreed its Council Strategy in September 2016 on the basis of the following priorities which were informed by feedback from residents:

- Southampton is a city with strong and sustainable economic growth;
- Children and young people in Southampton get a good start in life;
- People in Southampton live safe, healthy, independent lives; and
- Southampton is a modern, attractive city where people are proud to live and work.

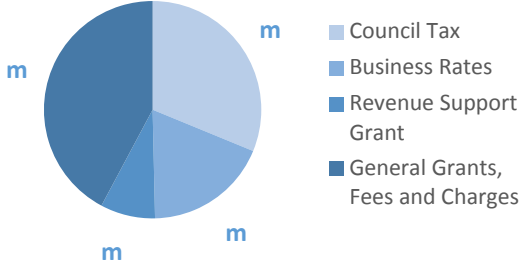
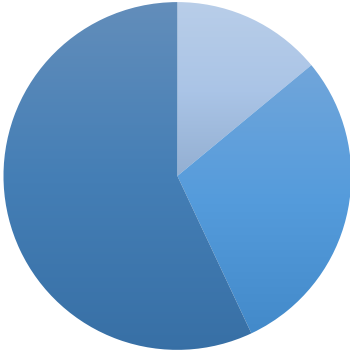
11. Local government has had to change significantly in response to ongoing changes in the city’s profile, trends in customer behaviour driver by technology, national and local policies and the austerity challenges. For us this is accompanied by ongoing challenges in the shape of rising demand in adults and children’s social care.

The chart below shows how the government funding to the Council has reduced and the projection is that by 2020 the Government is expecting councils to become financially viable through business rates which will replace government grants as our main source of income.

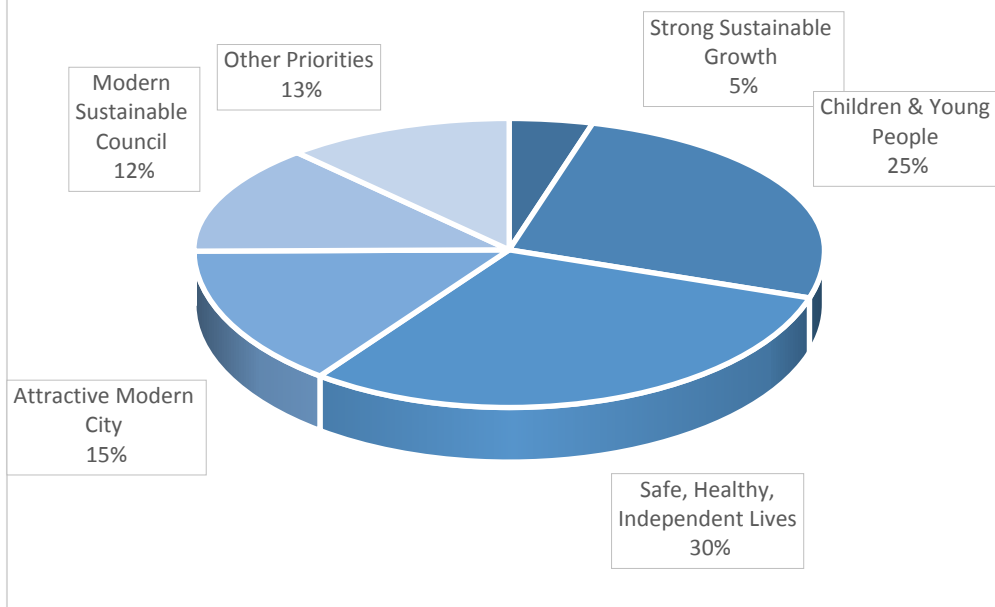


**MEDIUM TERM FINANCIAL STRATEGY AND MODEL**

12. The Council currently spends £611M delivering services and funds this from income from central Government Grants, Council Tax, Business Rates, Rents, and other Fees and Charges. Two areas of income we receive (Schools grants and Benefits payments) are passed directly from the Council to the Schools and Benefits recipients, and the Rents we get from Housing tenants must only be spent on providing Council Housing services. The rest of the Council’s income (£282 million) is included in the General Fund and is used to fund all other services. General Fund expenditure is dominated by Adult Social Care (29%) and Children’s Social Care (14%) with the remaining 57% spent on other services including Highways, Waste Services, Street Cleansing, Libraries, Parks and Open Spaces, Arts, Heritage and Culture, and Planning and Licensing.

	<p style="text-align: center;"><b>INCOME 2017/18 (£MILLIONS)</b></p>  <p> <span style="color: #ADD8E6;">■</span> Council Tax  <span style="color: #4682B4;">■</span> Business Rates  <span style="color: #0070C0;">■</span> Revenue Support Grant  <span style="color: #0056B3;">■</span> General Grants, Fees and Charges </p>	<p style="text-align: center;"><b>Expenditure 2017/18 (%)</b></p>  <p> <span style="color: #ADD8E6;">■</span> Children's Social Care  <span style="color: #0070C0;">■</span> Adult Social Care  <span style="color: #0056B3;">■</span> Other Services </p>
13.	<p>Council approved a 4 year MTFS in February 2017, 2 years of which showed a balanced position, 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.</p>	
14.	<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> <li>• To ensure that the Council's long term financial health and viability remain sound.</li> </ul>	
15.	<p>The current MTFS focuses on determining the financial position for the period up to and including 2020/21 and takes into account major issues affecting the Council's finances, including international, national and regional economic influences as well as local factors and priorities. It identifies risks and looks to mitigate those risks through provisions within reserves and balances to ensure the council has adequate resources to cover the uncertainty and risk. It provides the framework and assumptions for developing the overall budget, taking into account any agreed, unavoidable service pressures. The MTFS recognises the key role that financial resources play in the future delivery of services, and enabling the effective planning, management and delivery of those services. The MTFS is therefore key to the effective delivery of the Council's overall aims of achieving better outcomes for residents in a financially sustainable way.</p>	
16.	<p>The Council's current spend and how it is allocated across the main outcomes is shown in the pie chart below:</p>	

### Net Expenditure by Outcomes 2017/18



17. Based on the above strategy the forecast financial position for reducing the budget envelopes for all outcome plans over the 4 years to 2020/21 is set out in Table 1 below. The projected funding gap of £8.49M over the period was reported in the report to Council in February 2017.

**Table 1 Gap in funding**

	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M
Net Revenue Expenditure	198.55	203.25	212.30	264.41
Funding Available	(178.89)	(172.47)	(168.54)	(220.74)
Net Saving Requirement	(19.66)	(30.78)	(35.18)	(35.18)
<b>Annual Saving Requirement</b>	<b>0.00</b>	<b>0.00</b>	<b>8.58</b>	<b>8.49</b>

### ISSUES THAT HAVE BEEN CONSIDERED

18. The MTFs has been reviewed to take into account the following:
- The current forecast outturn position for 2017/18 including potential ongoing non-achievement of approved savings;
  - A review of pressures facing the Council; and
  - A review of base budget assumptions such as pay and inflation assumptions.

It should be noted that the Government will announce its latest Budget assumptions in the Autumn Statement on 22nd November 2017. The implications of any announcements made on the Councils position will therefore need to be included in the update to Council in February 2018. It should be noted that there is no expected change in the referendum levels. Table 2 below identifies the changes to the Medium Term Financial Strategy Model:

19.	<b>Table 2- MTFS Position Update</b>																																																							
	<table border="1"> <thead> <tr> <th></th> <th>2017/18 £M</th> <th>2018/19 £M</th> <th>2019/20 £M</th> <th>2020/21 £M</th> </tr> </thead> <tbody> <tr> <td>Original Savings Requirement</td> <td>0.00</td> <td>0.00</td> <td>8.58</td> <td>8.49</td> </tr> <tr> <td><b>Pressures</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>2017/18 Forecast Outturn Position</td> <td>5.00</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td>Future Years Identified Pressures</td> <td>0.00</td> <td>5.87</td> <td>3.55</td> <td>3.83</td> </tr> <tr> <td><b>MTFS Amendments</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Change in Central Grants Assumptions (New Homes Bonus &amp; Business Rates Top Up Grants)</td> <td>0.00</td> <td>(1.00)</td> <td>(1.00)</td> <td>(0.30)</td> </tr> <tr> <td>Review of Treasury Management Budget</td> <td>0.00</td> <td>(4.00)</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td>Release of Central Inflation Provision</td> <td>0.00</td> <td>(0.87)</td> <td>(0.87)</td> <td>(0.87)</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>Amended Savings Requirement</b></td> <td><b>5.00</b></td> <td><b>0.00</b></td> <td><b>10.26</b></td> <td><b>11.15</b></td> </tr> </tbody> </table>		2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	Original Savings Requirement	0.00	0.00	8.58	8.49	<b>Pressures</b>					2017/18 Forecast Outturn Position	5.00	0.00	0.00	0.00	Future Years Identified Pressures	0.00	5.87	3.55	3.83	<b>MTFS Amendments</b>					Change in Central Grants Assumptions (New Homes Bonus & Business Rates Top Up Grants)	0.00	(1.00)	(1.00)	(0.30)	Review of Treasury Management Budget	0.00	(4.00)	0.00	0.00	Release of Central Inflation Provision	0.00	(0.87)	(0.87)	(0.87)						<b>Amended Savings Requirement</b>	<b>5.00</b>	<b>0.00</b>	<b>10.26</b>	<b>11.15</b>
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20.	<p>The 2017/18 position is still under review with mitigations and management actions to the overall position to be finalised. The further detail on the current year forecast position, including the variance explanations are included within the Corporate Revenue Monitoring Report elsewhere on this agenda.</p> <p>2019/20 and future years budget gap to be addressed including further review of savings requirements and MTFS Funding Assumptions. Any update on this position will be included within the Budget Report to Council in February 2018.</p>																																																							
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21.	<p><u>Children and Young People</u> - £0.95M 2018/19</p> <ul style="list-style-type: none"> <li>The home to school transport service is currently experiencing an increase in numbers of children requiring transport to and from school. Additional budget was approved to address this pressure but due to additional demand the initial pressure was more than originally understood (£0.50M); and</li> <li>In addition, there are unachieved savings in respect of Service Cost Recovery that will not be achieved (£0.45M).</li> </ul>																																																							
22.	<p><u>Modern Sustainable Council</u> - £2.26M 2018/19</p> <ul style="list-style-type: none"> <li>The council has undertaken the first wave of digital transformation which looked at service specific digital journeys. The impact of the reviewed journeys to date has been variable with some assumed savings not being achieved and in some cases, the solution has not worked and assumed staffing savings cannot be achieved. Staffing pressures also have arisen as a result of implementation of Universal Credit (£1.26M);</li> <li>Unachieved income target savings in relation to Property Services. This is in part due to a delay in the design and sign off of the service restructure following the transfer of the service back in house, and associated vacancies, and due to reduced suitable</li> </ul>																																																							

	<p>opportunities for Property Investment (£0.50M). This is further impacted by a decision to restrict future investment decisions until the outcome of the consultation referred to in paragraph 30 is known; and</p> <ul style="list-style-type: none"> <li>• An assumed recurring approved saving proposal in relation to compliance has now been confirmed as a one off saving in 2017/18 only (£0.50M).</li> </ul>
23.	<p><u>Safe, Healthy &amp; Independent Lives - £2.67M 2018/19</u></p> <p>Pressures within this portfolio are due local demographics and the increasing complexity of adults requiring care.</p> <p>It should be noted that the forecast pressure in 2017/18 is £5.85M adverse. This includes savings where implementation dates have slipped giving a pressure in the current year but reducing the ongoing pressure to £2.67M in future years. This pressure will be further reviewed with any update being reported as part of the MTFS update report to Council in February 2018.</p>
24.	Where relevant the above pressures have been reflected in the forecast outturn position for 2017/18.
	<b><u>Funding Adjustments</u></b>
25.	Change in Central Grants Assumptions (New Homes Bonus & Business Rates Top Up Grants). These changes have been assumed following the technical consultation with regards to the Local Government Finance Settlement to be announced in December 2017. The changes are in respect of New Homes Bonus and Business Rate Top Up grants as further clarification in the calculation of these has now been provided.
26.	In light of slippage on the Capital Programme for 2017/18 reduced borrowing costs are expected along with continued short term borrowing keeping borrowing costs lower. The treasury management budget has therefore been reviewed. This includes revised assumptions in relation to the interest rate increase referred to in paragraph 28 below.
	<b><u>MTFS Adjustments</u></b>
27.	<p><u>Reduction in Centrally Held Allocations</u></p> <p>Held centrally are a number of allocations for inflation, increments, pension changes, redundancy and interest rate rises. This have been reviewed and due to the low level of inflation and interest over the past year some of this allocation has been released.</p>
	<b><u>Other Issues</u></b>
28.	<p><u>Interest Rate Increase</u></p> <p>The UK Bank Interest Rate had been maintained at 0.5% since March 2009 and until August 2016, when it was cut to 0.25%. Recent inflation figures and other factors have led to the Bank of England increasing the Bank Rate by 0.25% to 0.50%, on 2nd November 2017. Future interest rate rises are still unclear but are expected to be gradual, with a predication that rates will be further increased in 2018/19 and 2019/20 at 0.25% per annum capping at 1% at that point. The implications of this increase will need to be reviewed and updated as necessary in the MTFS assumptions that will be reported to Council in February 2018.</p>
29.	<p><u>Business Rate Pilot</u></p> <p>As noted in paragraph 7 whilst primary legislation for the implementation of 100% business rate retention has halted, the DCLG have confirmed that the Government are still committed to progressing towards this aim. In light of this work is continuing to establish the mechanism for how the system will operate including a review of a fairer funding system for</p>



	<p>need; appeals; growth incentives mechanisms; and potential reset periods.</p> <p>As part of this process, applications have been sought from local authorities to apply to be a 'pilot' for 100% business rate retention in 2018/19. The guidance provided stated that authorities would need to apply as part of 'pool' and demonstrate the benefit from the pool to a wider 'functional economic area'. The pilot is only for one year and applications were sought by 27<sup>th</sup> October 2017.</p> <p>Following discussion with Portsmouth City Council and the Isle of Wight Council a decision was made to submit an application for the functional area that forms the basis of the Solent Combined Authority Deal currently under consideration by the Secretary for State for Communities and Local Government, which also features 100% Business Rate Retention.</p> <p>Successful pilots will be announced in December 2017. If successful, the financial implications will be included in the MTFs update in February 2018.</p> <p>Cabinet are asked to note and ratify the decision taken to submit the application.</p> <p>A copy of the Business Case is available in the Members Room.</p>
30.	<p><u>Update on Investment in Commercial Properties</u></p> <p>CIPFA intends to publish the two revised Codes towards the end of 2017, Prudential Code and the Treasury Management Code, for implementation in 2018/19. CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year, which will incorporate the Strategy report that goes to Governance and Council in February. This gives greater focus on investments that have not been made purely for Treasury Management purposes i.e. investment in commercial properties.</p> <p>Linked to this the Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its Minimum Revenue Provision (MRP) guidance) for local authorities in England. However, discussion and consultation are in the early stages. Any ongoing impact on revenue generation assumptions will need to be updated once the proposals are finalised.</p> <p>Initial indications with regards to MRP is that some of the perceived flexibilities within the current guidance that allow for payment holidays, retrospective adjustments and choice of depreciation and MRP calculations will be removed. If this were the case, an additional 4% charge would be made to revenue per annum with regards to the borrowing in respect of commercial investments. Based on current investments this would equate to an additional charge of £1.2M per annum to general fund revenue which would have to be factored into the investment return that would be expected. For future investments, this would require a rate of return of 10% to be a viable investment.</p>
	<p><b><u>RESERVES AND BALANCES</u></b></p>
31.	<p>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.</p>
	<p><u>Earmarked Reserves</u></p>
32.	<p>The Council has a number of earmarked reserves that have been set aside for specific reasons. These reserves can be split into two categories:</p> <ol style="list-style-type: none"> <li>a. Those required to be kept by statute or accounting guidance. For example revenue grants reserve, School Balances. These reserves can only be utilised for the purpose for which they have been set aside.</li> <li>b. Those set aside for a future event that has a high probability of occurring. For</li> </ol>

	example Transformation Reserve.
33.	The financial risks facing the Council in the medium term are assessed within the MTFS. 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 which can affect the financial stability of the council.
34.	In light of the increasing level of risk and uncertainty identified within the MTFS and the increased probability of resources being required to support its delivery, a full review of useable reserves and provisions has been undertaken. In closing the accounts for 2016/17 a view has been taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the highest areas of risk resulting in the rationalisation of reserves and provisions where possible and in some cases additional funding being set aside.
	<u>General Fund Balance</u>
35.	The General Fund Balance is forecast to be £11.3M at the end of 2017/18 providing the current year financial overspend is addressed. The required level of balance is determined by assessing the level of risk the Council faces. This is currently assessed at £11.3M.
36.	Obviously when the Council is facing significant cuts in funding, increasing demand alongside a major transformation programme the level of risk is heightened. The assessed minimum balance will be reviewed again for the MTFS update in February 2018, taking into consideration both risk and affordability.
	<b>SCHOOLS UPDATE</b>
37.	<p><u>Surpluses</u></p> <p>At the end of 2016/17 13 schools held surplus balances.</p> <p>The Schools Regulations allow the LA to review any surplus balances in excess of 5% (Secondary Schools) and 8% (Primary Schools). For these 13 schools the excess totals £1.72M. As per a policy agreed with the Schools Forum there are 3 specific purposes that the surpluses can be held for in excess of the 5% &amp; 8%.</p> <ul style="list-style-type: none"> <li>• Revenue contribution to capital spend over 2 years</li> <li>• Maintaining funds in the short and medium term due to a dip in NOR</li> <li>• Funding changes in policy</li> </ul> <p>Work is currently being undertaken with the schools to review the uses of these balances and any surplus will be recouped as per the policy.</p>
38.	<p><u>Deficits</u></p> <p>There are currently 14 schools who have reported potential deficit balances for 2017/18. The total value of the deficits is £2.05M with one school having a potential deficit balance in excess of £0.50M;</p> <p>Council officers from the Education and Finance Services are working initially with the four schools with the highest potential deficit balances to agree actions plans to reduce these deficits with the remaining 10 schools being requested to submit deficit recovery plans for review.</p>
39.	<p><u>High Needs Pressures</u></p> <p>High levels of pupil numbers with special educational needs has led to a pressure within the High Needs Budget of £2.9M. A High Needs Working Group with representatives from all groups has been considering all options. A non-recurrent contribution from General Fund Reserves has been approved in 2017/18 to enable the group to formulate an ongoing</p>

	workable solution.																																																																								
40.	<p><b>PFI Contract</b></p> <p>There is a forecast increase in the total cost of the PFI contract equating to £0.29M per year from 2017/18 to the end of the contract 2031/32 to be met from the Dedicated Schools Grant. This increase has taken into consideration the increased contributions from the three PFI schools for their Facilities Management Services. There is a potential pressure due to one of the three PFI schools having not yet signed the deed of variation to the revenue agreement that was agreed in principle in 2014.</p>																																																																								
41.	It has been assumed that the above noted pressures will need to be accommodated within the dedicated schools grant (DSG).																																																																								
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42.	The income and expenditure budgets for the HRA were approved by Council in February 2017 as shown in table 3 below, with a net draw required from the HRA balances of £1.00M.																																																																								
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45.	The variance of £0.35M is due to a delay in the implementation of the new materials contract, initially due to systems and stock replenishment issues but has been mitigated in part, by savings from vacant posts; retendering on Housing Investment expenditure; and increased income from leasehold properties due to major works. Work is ongoing to identify																																																																								

	<p>further in-year savings to mitigate the variance, but the current assumption is that a review of the capital programme will be undertaken to identify £0.35M of savings or slippage to allow a reduced revenue contribution to capital in 2017/18.</p>																																																																	
	<p><b><u>Update on Budget Position</u></b></p>																																																																	
46.	<p>As part of setting the budget for 2017/18 onwards, the HRA business plan was updated to reflect a required 1% reduction in dwelling rent for the financial years 2016/17 to 2019/20. This resulted in a loss of income of £33M. The Business Plan approved by Council in February 2017 included a 2018/19 savings target of £3.94M. Draft savings proposals of £3.94M have been identified. The table below provides an update on the current HRA budget position:</p>																																																																	
47.	<p><b>Table 4 – HRA Budget Position Update</b></p> <table border="1"> <thead> <tr> <th></th> <th>2017/18 £M</th> <th>2018/19 £M</th> <th>2019/20 £M</th> <th>2020/21 £M</th> </tr> </thead> <tbody> <tr> <td><b>Original Savings Requirement</b></td> <td><b>0.00</b></td> <td><b>3.94</b></td> <td><b>7.84</b></td> <td><b>8.16</b></td> </tr> <tr> <td><u>Pressures</u></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>2017/18 Forecast Outturn Position (Paragraph 39)</td> <td>0.35</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td>Future years identified pressures – none currently identified</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td><u>Savings</u></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>One-off contribution from Heating Account</td> <td>0.00</td> <td>(0.39)</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td>Efficiency Savings</td> <td>0.00</td> <td>(0.14)</td> <td>(0.15)</td> <td>(0.15)</td> </tr> <tr> <td>Income Generation</td> <td>0.00</td> <td>(0.02)</td> <td>(0.02)</td> <td>(0.02)</td> </tr> <tr> <td>Service Reductions</td> <td>0.00</td> <td>(0.45)</td> <td>(0.45)</td> <td>(0.45)</td> </tr> <tr> <td>Reduction in Contribution to Capital Funding</td> <td>(0.35)</td> <td>(2.94)</td> <td>(2.00)</td> <td>(2.00)</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>Amended savings requirement</b></td> <td><b>0.00</b></td> <td><b>0.00</b></td> <td><b>5.22</b></td> <td><b>5.54</b></td> </tr> </tbody> </table>		2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	<b>Original Savings Requirement</b>	<b>0.00</b>	<b>3.94</b>	<b>7.84</b>	<b>8.16</b>	<u>Pressures</u>					2017/18 Forecast Outturn Position (Paragraph 39)	0.35	0.00	0.00	0.00	Future years identified pressures – none currently identified	0.00	0.00	0.00	0.00	<u>Savings</u>					One-off contribution from Heating Account	0.00	(0.39)	0.00	0.00	Efficiency Savings	0.00	(0.14)	(0.15)	(0.15)	Income Generation	0.00	(0.02)	(0.02)	(0.02)	Service Reductions	0.00	(0.45)	(0.45)	(0.45)	Reduction in Contribution to Capital Funding	(0.35)	(2.94)	(2.00)	(2.00)						<b>Amended savings requirement</b>	<b>0.00</b>	<b>0.00</b>	<b>5.22</b>	<b>5.54</b>
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48.	<p>In 2013/14 the HRA made a contribution of £391,000 to the landlord-controlled heating account in order to reduce the deficit on that account. This was in effect a short term contribution to balance the account but it was intended that the sum would be repaid to the HRA. At the end of 2016/17 the heating account held a surplus of £802,000, and is in a position to now make a repayment to the HRA.</p>																																																																	
49.	<p>Efficiency savings, Income generation and Service Reductions savings are being explored, including reduction and cessation of various corporate subscriptions, as well as potential further service redesign. The proposals are still in the early stages but if any of the final proposed budget proposals impact on staffing, consultation will be undertaken in line with legislation and the Councils agreed processes before proposals are implemented as detailed in paragraphs 54 to 56 below.</p>																																																																	
50.	<p>There are proposed reductions in revenue contributions to capital as a result of slippage and reduced spend on current approved capital schemes. In addition, there is a proposal to</p>																																																																	

	replace capital funding from revenue contributions with increased borrowing. Although this will be with the overall HRA borrowing limits, it should be noted that this saving is after taking into account the change in priorities of the capital programme to undertake identified works following the Grenfell Tower disaster. These works will be funded through slippage in existing schemes, additional long term borrowing, and HRA capital receipts. It should be noted that £0.94M of this is a one off saving in 2018/19.
51.	The above savings proposals are in the early stages of discussion but are not expected to result in the need for public consultation. The final proposals will be included in the HRA Business Plan update that will be submitted to Council in February 2018. Full details are included in Appendix 1.
	<b><u>BUDGET CONSULTATION</u></b>
52.	At this stage, it is felt that there is no need for consultation on the savings proposals that have been put forward. However should the need arise Cabinet will undertake a public consultation process. The Leader and Cabinet are keen to listen to any new ideas on how to reduce costs, to receive feedback on the proposals and on any potential impact of the proposals. If consultation is undertaken, the results will be taken into consideration by the Executive before finalising the budget that will be recommended to Full Council in February 2018. If consultation has not been completed by the time of the February Council meeting alternative proposals, that do not require public consultation, will need to be put forward to meet any resultant budget gap.
53.	The aims of the public consultation are to: <ul 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 updated 2018/19 budget and are aware of what this will mean for them;</li> <li>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;</li> <li>d. Ensure that the results are analysed in a meaningful, timely fashion, so that feedback is taken into account when final decisions are made; and</li> <li>e. Provide feedback on the results of the consultation and how these results have influenced the final decision.</li> </ul>
	<b>STAFFING IMPLICATIONS</b>
54.	The City Council has on-going financial challenges. As a significant proportion of the Council's expenditure is on employee costs in the context of all outcomes being delivered within reducing envelopes, it is inevitable that the draft proposals will have an impact on staff cost and staff numbers.
55.	In light of this, the Council has agreed a clear framework for change management with the trade unions to implement a fair and transparent way of achieving the necessary reductions in employee numbers whilst working to reduce the potential for compulsory redundancies. Where any proposals have an impact on workforce numbers, employment status and/or terms and conditions of employment there will be meaningful consultation with due regard to statutory timeframes as a minimum.
56.	Through the consultation process the Cabinet are keen to explore all avenues with the Trade Unions and employees to identify wherever possible alternative options for delivering savings, in order that the level of any proposed workforce reductions and potential redundancies can be reduced. The Cabinet will also continue to ensure that impacted staff

	are aware of all the available options which can be used to avoid compulsory redundancies including: <ul style="list-style-type: none"> <li>• Voluntary solutions;</li> <li>• Early and Flexible retirement; and</li> <li>• Voluntary redundancy and proposals from employees such as reduced hours.</li> </ul>
<b><u>EQUALITY AND SAFETY IMPACT ASSESSMENTS</u></b>	
57.	The Equality Duty is a duty on public bodies which came into force on 5 April 2011. The Council will have due 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.
58.	While the 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 takes into account equality and safety considerations. In addition, in light of the potential impact of the welfare reforms on some residents, the assessments also take into account the impact on poverty.
59.	Equality and Safety Impact Assessments (ESIAs) will need to be completed for any proposals that are identified as requiring an assessment, as they could have an adverse impact on a particular group or individuals.
60.	The individual ESIAs are then analysed to consider the cumulative impacts proposals may have on particular groups and the mitigating actions that could be considered. In order to give the right perspective to 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 first draft of the Cumulative Impact Assessment are completed by a central team of officers within the Council, based on the initial ESIAs completed by service managers. This is then published on the Council's website.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
61.	The capital and revenue implications are fully detailed within the report.
<b><u>Property/Other</u></b>	
62.	None
<b>LEGAL IMPLICATIONS</b>	
63.	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.
64.	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.
65.	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..
66.	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 2017 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.
67.	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.
68.	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.
69.	The Local Government Act 2000 provides a power for Councils to promote the economic, social and environmental well-being of their areas and develop community strategies and establishes an ethical framework.
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 Management Team, the proposals contained in this report have been checked from a legal viewpoint.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
73.	The council maintains a financial risk register which details the key financial risks that face the council at a given point in time. This is updated on a quarterly basis and forms part of the Corporate Revenue Monitoring Report included elsewhere on this agenda.
74.	<p>Alongside the risks identified when setting the budget for 2017/18 a number of items have arisen since this time that may need to be addressed outside of those assumptions. Currently those main issues are:</p> <ul style="list-style-type: none"> <li>• Required actions as a result of the Grenfell Tower Block Fire - the budget for improvement works to Albion Towers, Sturminster House and Shirley Towers was approved, by Cabinet on 17 February 2015 and included provision for sprinklers. The HRA capital expenditure over the coming years is being reviewed to reallocate resources to enable further fire safety measures to be installed in the other tower blocks;</li> <li>• Following the General Election, clarification is still needed on the next stages of Business Rate Retention. Councils have been given the opportunity to bid to become a Pool Pilot in 2018/19. Southampton submitted a bid as part of a Solent Bid with Portsmouth and the Isle of Wight.</li> <li>• Potential risk of savings proposals not being achieved and insufficient mitigations found to deal with in year – this is covered by the MTFS reserve;</li> <li>• High Needs Funding – due to increasing pupil numbers within special schools and the associated cost of Home to School transport, there is a £2.9M pressure that will need to be resolved by 2018/19. In this financial year this pressure will be mitigated using DSG roll forward; review of the top-up funding; and an injection from general fund reserves to enable the schools and the service to plan and implement savings.</li> </ul>
75.	There is still a risk from the economic climate due to Brexit and current levels of inflation. These are covered both by the MTFS reserve and by the contingencies (previously known as the risk fund).
76.	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 2018.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
77.	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 2018/19 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>	<b>All</b>
<u>SUPPORTING DOCUMENTATION</u>	
<b>Appendices</b>	



1	HRA Draft Savings Proposals 2018/19
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**Documents In Members' Rooms**

1.	Business Case for 100% Business Rates Pilot – Solent Unitary Authorities
2.	

**Equality Impact Assessment**

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
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**Privacy Impact Assessment**

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
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**Other Background Documents**

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)
1.	
2.	