DECISION-MAKER:		**CABINET** **COUNCIL**		
SUBJECT:		**THE REVISED MEDIUM TERM FINANCIAL STRATEGY AND BUDGET 2018/19 to 2021/22**		
DATE OF DECISION:		**13 FEBRUARY 2018** **21 FEBRUARY 2018**		
REPORT OF:		**CABINET MEMBER FOR FINANCE**		
CONTACT DETAILS				
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STATEMENT OF CONFIDENTIALITY
N/A

EXECUTIVE SUMMARY

This report details the Medium Term Financial Strategy (MTFS) for the period 2018/19 to 2021/22 and provides the budget position for 2018/19 and later years for the General Fund and the Housing Revenue Account (HRA).

In February 2017, the council approved a two year balanced budget for the first time for the financial years 2017/18 and 2018/19.

This was the result of the implementation of the first stage of Outcome Based Planning and Budgeting (OBPB) allowing the council to focus and utilise resources towards agreed priorities and outcomes.

This also gives certainty to residents, businesses and service users that service provision has been prioritised and funded for those two years, within a stable financial framework. This meant there was no requirement for further consultation on service provision for the 2018/19 financial year.

The objective of the MTFS is to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the council's outcomes.

The Strategy is based around 6 key aims:

- To provide financial parameters within which budget and service planning should take place;
- To ensure the council sets a balanced budget;
- 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;
- To ensure the council manages and monitors its financial resources effectively so that

spending commitments do not exceed resources available in each service area;

- 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 priorities whilst gradually reducing the council's reliance on Central Government funding; and
- To ensure that the council's long term financial health and viability remain sound.

The OBPB process will be further reviewed and refined in 2018/19 to ensure that the budget gap in 2019/20 and future years can be mitigated.

As a result of changes in service requirements and demand, the report identifies the new pressures that impact on the General Fund in 2018/19 and the proposals to fund those additional pressures. In addition, for the HRA, the report makes recommendations in relation to rents, service charges, and other charges to council tenants, and leaseholders, from 1st April 2018 for the 2018/19 financial year.

The report summarises the Housing Revenue Account (HRA) 30 year Business Plan and the assumptions behind it including details of savings proposals recommended to close the HRA budget gap. The proposals do not require any formal consultation, and the recommendations of the report take this into account.

The Government announced its latest Budget assumptions in the Autumn Statement on 22nd November 2017 .The implications of these announcements, along with the Provisional Local Government Finance Settlement (PLGPS) have been included within the updated MTFS and budget position contained within this report along with an update on the impact of other national and local factors such as Brexit and the move towards 100% Business Rate Retention (BRR). The Ministry of Housing, Communities & Local Government (formerly the Department for Communities & Local Government – DCLG) announced on the 19th December that Southampton City Council, along with Portsmouth City Council and Isle of Wight Council, had been successful in a joint bid to become a Pilot for 100% Business Rates Retention and to form a Solent Business Rates Pool.

The impact of the latest capital programme and Capital Strategy, are also included in the strategy, with the detail reported in the General Fund & Housing Revenue Account Capital Strategy & programme 2017/18 to 2021/22. This has been updated for changes as recommended by the Council Capital Board.

The MTFS is supported by the approved Efficiency Plan for the council, which was a requirement of accepting the 4 year settlement offer. This has been updated and is included as an annex to the MTFS.

RECOMMENDATIONS:

CABINET

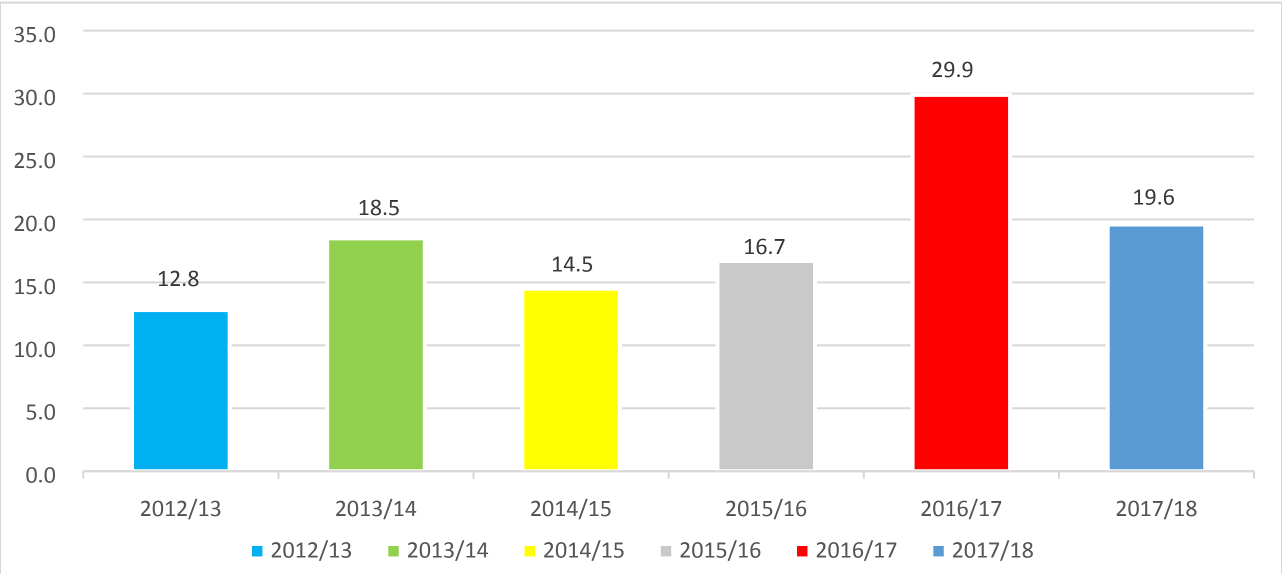
General Fund

	i)	Note the position on the forecast adverse outturn position for 2017/18 as set out in paragraphs 32 to 38.
	ii)	Note the revised Medium Term Financial Strategy 2018/19 to 2021/22 as detailed in Appendix 2.

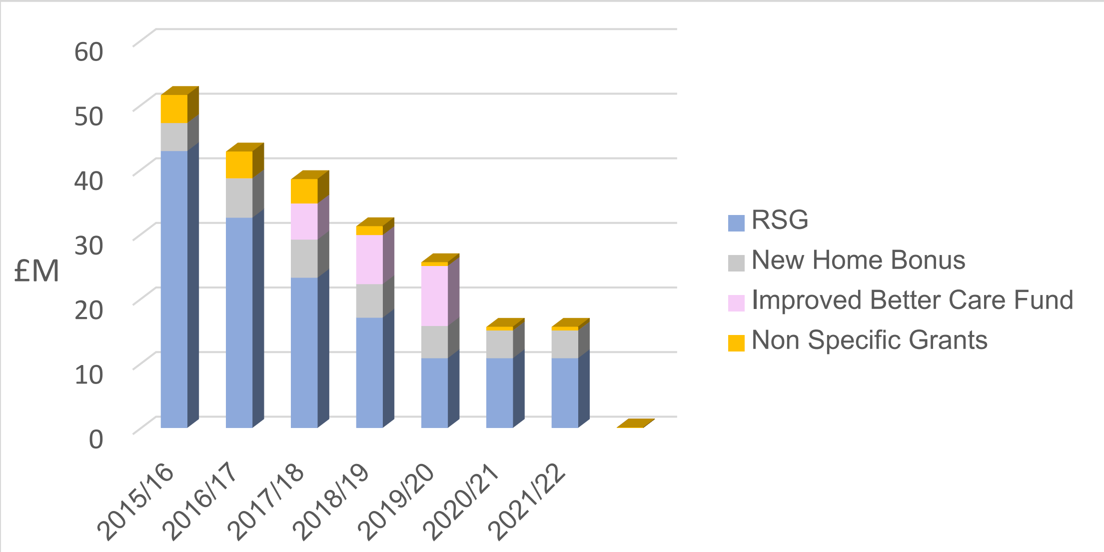
	iii)	Note the aims and objectives of the Medium Term Financial Strategy which will be presented to council for approval on 21 February 2018.
	iv)	Note that the Executive’s budget proposals are based on the assumptions detailed within the MTFS and that this includes a council tax increase of 5.99 %, 2.99% under general powers to increase council tax without a referendum and 3.00% Social Care Precept in 2018/19.
	v)	To note that the report identifies additional general fund pressures totalling £10.07M in 2018/19 as detailed in paragraphs 42 to 46 and 58 to 59 along with the proposed funding mitigations.
	vi)	To note that the report identifies direct investment in services totalling £2.46M, with a further sum of £1.18M invested in an Enterprise Resource Planning Programme in 2018/19 as detailed in paragraph 60 along with the proposed funding mitigations.
	vii)	To note that further proposals will need to be considered to address the 2019/20 and future years budget gap.
	viii)	Notes and recommends to council where appropriate, the MTFS and General Fund Revenue Budget changes as set out in council recommendations i) to xiv).
Housing Revenue Account		
	ix)	To note that, from 1st April 2018, a standard decrease be applied to all dwelling rents of 1.0%, as set out in paragraph 107 of this report, equivalent to an average decrease of £0.85 per week in the current average weekly dwelling rent figure of £84.57.
	x)	To note an increase in weekly service charges of 3% from 1st April 2018 (including supported accommodation) based on a full cost recovery approach – as detailed in paragraph 108.
	xi)	To note an increase in the charges to council tenants for garages by 15% and parking spaces by 10% from1st April 2018 as detailed in paragraph 106.
	xii)	To note savings totalling of £3.94M in 2018/19 as laid out in Appendix 9.
	xiii)	To note and recommend the Housing Revenue Account Revenue Estimates as set out in the report.
	xiv)	To note the 30 year Business Plans for revenue and capital expenditure set out in Appendices 7 and 8 respectively, that based on current assumptions are sustainable and maintain a minimum HRA balance of £2M in every financial year.
	xv)	To note that rental income and service charge payments will continue to be paid by tenants in 48 instalments across a 52 week period.
COUNCIL		
General Fund		
	i)	Note the position on the forecast adverse outturn position for 2017/18 as set out in paragraphs 32 to 38.
	ii)	Approves the revised Medium Term Financial Strategy 2018/19 to 2021/22 as detailed in Appendix 2.
	iii)	Approves the aims and objectives of the Medium Term Financial Strategy.
	iv)	Notes that the Executive’s budget proposals are based on the assumptions detailed

		within the MTFS and that this includes a council tax increase of 5.99 %, 2.99% under general powers to increase council tax without a referendum and 3.00% Social Care Precept in 2018/19.
	v)	Approves additional general fund pressures totalling £10.07M as detailed in paragraphs 42 to 46 and 58 to 59 along with the proposed funding mitigations.
	vi)	Approves direct investment in services totalling £2.46M, with a further sum of £1.18M invested in an Enterprise Resource Planning Programme in 2018/19 as detailed in paragraph 60 along with the proposed funding mitigations.
	vii)	To note that further proposals will need to be considered to address the 2019/20 and future years budget gap.
	viii)	Note and approve the arrangements made by the Leader, in accordance with the Local Government Act 2000, for the Cabinet Member for Finance to have responsibility for financial management and budgetary polices and strategies, and that the Cabinet Member for Finance will in accordance with the Budget and Policy Framework Rules as set out in the council's Constitution, be authorised to finalise the Executive's proposals in respect of the Budget for 2018/19, in consultation with the Leader, for submission to full council 21 February 2018.
	ix)	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 and any implications from of the Final Local Government Finance Settlement.
	x)	Sets the council tax Requirement for 2018/19 at £95.93M as per Appendix 3.
	xi)	Notes the estimates of precepts on the council tax collection fund for 2018/19 as set out in Appendix 4.
	xii)	Delegates authority to the Service Director – Finance & Commercialisation (S151 Officer) to implement any variation to the overall council tax arising from the final notification of the Hampshire Fire and Rescue Authority precept and the Police and Crime Commissioner for Hampshire, precept.
Housing Revenue Account		
	xiii)	To approve that, from 1st April 2018, a standard decrease be applied to all dwelling rents of 1.0%, as set out in paragraph 107 of this report, equivalent to an average decrease of £0.85 per week in the current average weekly dwelling rent figure of £84.57.
	xiv)	To approve an increase in weekly service charges of 3% from 1st April 2018 (including supported accommodation) based on a full cost recovery approach – as detailed in paragraph 108.
	xv)	To approve an increase in the charges to council tenants for garages by 15% and parking spaces by 10% from1st April 2018 as detailed in paragraph 106.
	xvi)	To approve savings totalling of £3.94M in 2018/19 as laid out in Appendix 9.
	xvii)	To approve the Housing Revenue Account Revenue Estimates as set out in the report.
	xviii)	To approve the 30 year Business Plans for revenue and capital expenditure set out in Appendices 7 and 8 respectively, that based on current assumptions are sustainable and maintain a minimum HRA balance of £2M in every financial year.

	xix)	To note that rental income and service charge payments will continue to be paid by tenants in 48 instalments across a 52 week period.
REASONS FOR REPORT RECOMMENDATIONS		
1.	The council is a large and complex 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 opportunities and challenges 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 refine 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. These have been addressed through increased income; central government funding changes; the revision of centrally held funds and from a review of treasury management requirements. At this stage there are no new savings proposals identified within the General Fund however, savings proposals are proposed with regards to the HRA. None of the savings proposals seeking approval at this stage require consultation.	
4.	The Constitution requires the Executive to recommend its budget proposals for the forthcoming year to full council. The recommendations contained in this report set out the various elements of the budget that need to be considered and addressed by the Cabinet in preparing the final papers that will be presented to full council.	
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED		
5.	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 21 February 2018.	
6.	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 have been 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 Strategy and Programme Update report is included elsewhere on the agenda, and the latest position is included in the MTFS Model.	
7.	This report sets out the HRA revenue budgets for 2018/19 and the 30 year HRA business plan covering the period 2018/19 to 2047/48. The proposed changes to rents and other charges are an integral part of the revenue estimates for 2018/19.	
DETAIL (Including consultation carried out)		
	BACKGROUND	
8.	Each financial year the council is required to set the level of council tax for the residents of Southampton. In doing this the council reviews its Medium Term Financial Strategy to ensure we are still on track to achieve a balanced position and are aware of the required efficiencies in future years.	
9.	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	

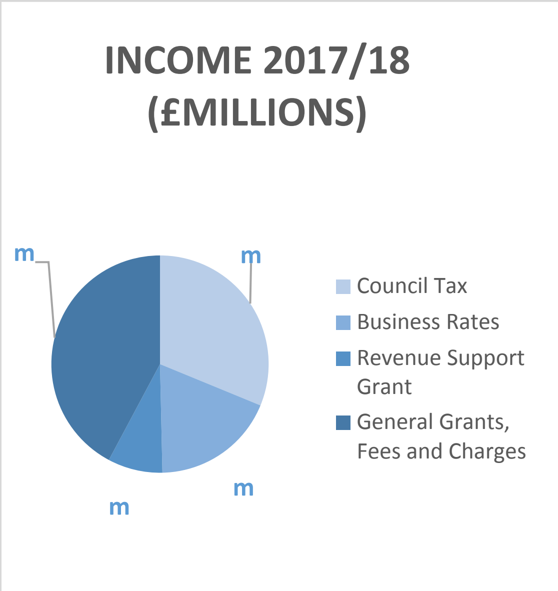
	MTFS assumptions were based on Central Government Funding proposals pre the General Election in June 2017. Under those proposals the intention was to radically change the way local authorities are funded by moving to full 100% business rate retention and phasing out the Revenue Support Grant by 2020. 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.
10.	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 Fair Funding Formula. A timeline for this has not yet been announced although views have been sought via a MHCLG enquiry of the potential impact of delaying the implementation of 100% Business Rate Retention until 2020/21. A Fair Funding Review consultation is currently underway. The deadline for this consultation is the 12th March 2018 and the council will be submitting its views.
11.	The Provisional Local Government Finance Settlement has indicated that there will be a move to 75% business rate retention in the medium term from 2019/20 onwards although this has not been reflected in the MTFS update at this time. The MTFS will be updated as further details are confirmed.
12.	A 100% Business Rate Retention Pilot bid was submitted to the then Department for Communities and Local Government (DCLG) on the 27th October 2017 for the Solent Region. This included the forming of a business rates pool arrangement comprising of Southampton City Council, Portsmouth City Council and the Isle of Wight Council. The MHCLG confirmed on the 19th December 2017 that the bid had been successful. The Pilot bid covers the financial year 2018/19. This has been factored into the updated MTFS and further details are included in paragraphs 18 to 22.
13.	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 change, reduce, stop and in some cases, develop new services. 
14.	The MTFS, approved by council February 2017, introduced a different approach to financial

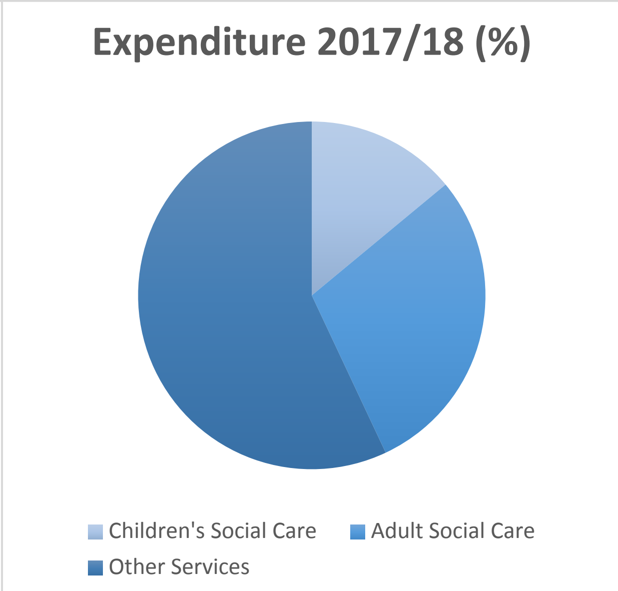
	management with the aim of aligning delivery of the Executive's key outcomes (described in the Council Strategy 2016-20) with affordability. This aims to help the council to invest its reducing resources in activities that have the greatest impact on the delivery of priority outcomes. The council also 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.
15.	In September 2016, the council approved the Southampton City Council Strategy 2016-20. The Strategy sets out the council's strategic vision until 2020 and has four key outcomes, along with an internal outcome, which are: 
16.	The outcome plans are contained within the Medium Term Financial Strategy Report approved at council in February 2017. Appendix 1 contains the updated financial summaries for each of the outcomes.
17.	Local government has had to evolve 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 independent through business rates and council tax which will replace government grants as our main sources of income.



For comparison purposes 2018/19 still contains the RSG the council would have received without the Business Rates Retention Pilot.

	BUSINESS RATES POOL AND 100% BUSINESS RATES RETENTION PILOT
18.	In October, a joint application between the Southampton City Council, Portsmouth City Council and Isle of Wight Council (the basis for the Solent Combine Authority Deal) was made to the then Department for Communities and Local Government, to become a 100% business rates retention pilot. As a result the council foregoes Revenue Support Grant and becomes a tariff authority rather than receiving a top up grant. Further information is contained within the Business Rates section of the report.
19.	The bid also included the establishment of a pooling arrangement for the business rates of the three councils.
20.	The Solent Pilot was announced as a successful pilot on the 19th December 2017.
21.	The arrangement will be governed by a Board consisting of the three council leaders, and provides the opportunity for the 3 councils to retain the governments share of business rates growth and invest this in services, financial stability and sustainable, and reinvesting in promoting further growth in the city.
22.	The council's financial benefit from any growth will not impact until 2019/20 and has not been included in the financial position within this report, due to the business rates pilot being one year only at the present time. At this time the expected benefit may be in the region of £2.5M.
	MEDIUM TERM FINANCIAL STRATEGY AND MODEL
23.	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, Planning and Licensing, Economic Development and Skills.





24. 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.

25. There are 6 key aims of the Strategy:

- To provide financial parameters within which budget and service planning should take place;
- To ensure the council sets a balanced budget;
- 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;
- To ensure the council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;
- 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
- To ensure that the council's long term financial health and viability remain sound.

26. The updated MTFS focuses on determining the financial position for the period up to and including 2021/22. However the financial position post 2019/20 becomes more uncertain as this is post the current Comprehensive Spending Review period, and when 75% Business Rates Retention and Fair Funding Formula should come into effect. The MTFS 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 opportunities and looks to mitigate the 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.

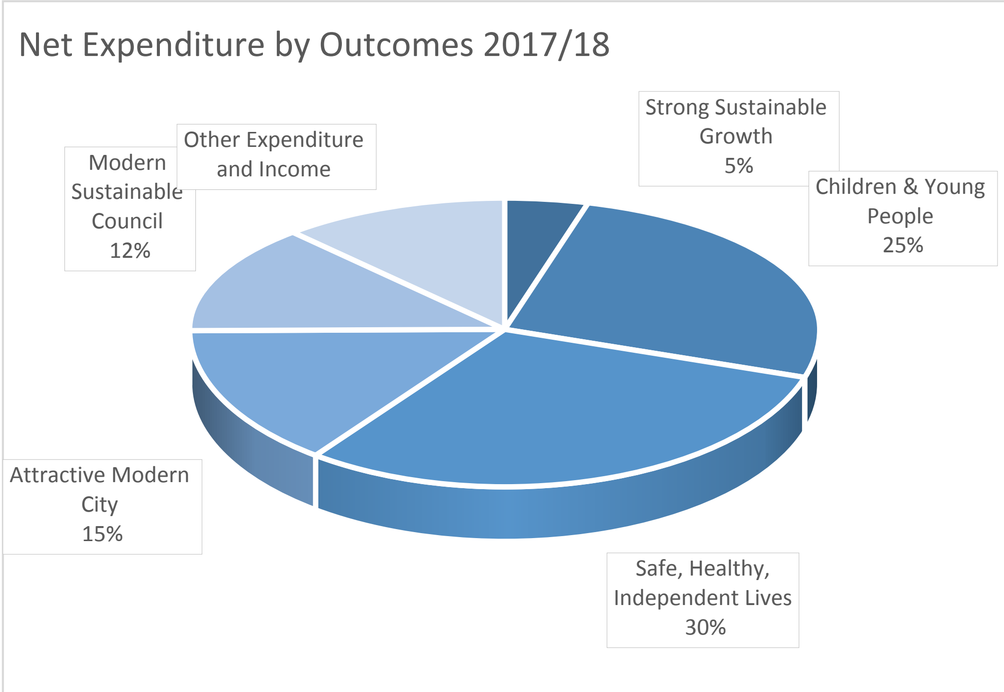
27.	The budget proposals contained within this report seek to increase council tax by 5.99% which (based on 2017/18) represents £1.62 per week for residents in a Band D property but will help the council to continue to deliver services that matter most to residents.
28.	The council's current spend and how it is allocated across the main outcomes is shown in the pie chart below: 
29.	In February 2017 the forecast financial position was a balanced position for 2018/19, and a £8.58M budget gap for 2019/20 as set out in the table below.

Table 1 Gap in funding

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Net Revenue Expenditure	203.25	212.30	264.41	264.41
Funding Available	(172.47)	(168.54)	(220.74)	(220.74)
Net Saving Requirement	(30.78)	(35.18)	(35.18)	(35.18)
Annual Saving Requirement	**0.00**	**8.58**	**8.49**	**8.49**

30.	Since February 2017 the MTFS has been reviewed and updated to include pressures and benefits that have arisen in that time. The following sections describe the detail of the items that have been taken into account in revised the Medium Term Financial position.
	ISSUES THAT HAVE BEEN CONSIDERED
31.	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.

	• The Provisional Local Government Finance Settlement (PLGFS) - The Government announced its latest Budget assumptions in the Autumn Statement on 22nd November 2017. The implications of these announcements, along with the Provisional Local Government Finance Settlement have been included within the updated MTFS and budget position contained within this report, along with an update on the impact of other national and local factors such as Brexit and the updated 100% Business Rate Retention (BRR) assumptions (with the exception of the potential additional funding from the 100% Business Rates Retention Pilot).
	2017/18 Forecast Outturn Position
32.	Whilst this report is concerned with an update on the MTFS for the period from 2018/19 onwards, there are elements of the 2017/18 forecast outturn that will have an impact on the overall financial position. The latest position, as at 31st December 2017, is that there is a forecast overspend against budget of £2.02M (this is not unusual at this point in the financial year).
33.	The table below shows the summary forecast outturn position:

Table 2 – 2017/18 Summary Forecast Outturn Position

	Forecast Outturn Variance £M	Forecast Outturn Variance %
Baseline Portfolio Total	**4.33 A**	**2.6**
Capital Asset Management	1.73 F	5.8
Other Expenditure & Income	0.18 F	10.4
General Government Grants	0.40 F	1.0
Net Overspend	**2.02A**	**-**

34.	The overall forecast overspend on portfolios is £4.33M which has been offset by the release of central funding. This relates to: • Review and release of Treasury Management budgets £1.73M. This is due to continued short term borrowing which attracts lower borrowing rates which reduces anticipated borrowing costs in year; slippage in the capital programme has reduced the borrowing requirement; and there has been higher than anticipated returns on investments; and • Additional Government Grants £0.14M (Staying Put Grant) and grants, notified after budget setting for 2017/18, have not reduced in line with expectations giving an additional £0.26M in 2017/18.
35.	The key area of overspend is the Housing and Adult Care Portfolio, with a £4.40M forecast overspend. This is further detailed in table 3 below.

36. It should be noted that as forecast overspends have been identified, the relevant Service Director has been expected to develop an action plan to detail what measures and interventions would be undertaken to manage the pressure. In addition to the action plans, ‘intensive care’ meetings are held with the Senior Leadership Team to discuss key issues and actions with the Service. It is expected that these meetings and the requirement for action plans will continue into 2018/19, with an overarching expectation that pressures arising must be accommodated within the overall service budgets. This has led to significant improvement in the overall forecast position. The following table details how these pressures have been mitigated in 2017/18 and how they have impacted on the 2018/19 proposed estimates:

Table 3 – Impact of 2017/18 Pressures

Outcome	2017/18 Pressure		How this is being dealt with in the MTFS Model
	Description	£M	
Strong and sustainable economic growth.	Pressure due to delays in the Capital Assets restructure leading to less profitability and fewer than expected investment properties and lower rental incomes.	0.62	This is being met from one off savings in the Central Repairs and Maintenance budget in 2017/18, and a treasury management saving from investing in the CCLA. A £0.5M pressure has been included in the MTFS update in 2018/19 & 2019/20 to mitigate against the loss of income
Strong and sustainable economic growth.	Property Services pressure is due to the non-charging of overheads to capital.	0.78	This is being met from one off savings in the Central Repairs and Maintenance budget in 2017/18. In 2018/19 this will be offset by a planned underspend on the Central Repairs and Maintenance budget whilst the required programme of works is reviewed. This can be supported as a result of the accommodation review capital scheme. Additionally a new management SLA with the HRA for their programme of works will be implemented.

Outcome	2017/18 Pressure		How this is being dealt with in the MTFS Model
	Description	£M	
Children and young people get a good start in life.	Adverse variance due to a delay in the integration of the 0-19 service.	0.17	A detailed review of all the teams within Early Help is being undertaken to move staff to new teams as part of the Phase 3 restructure. Additional savings have been identified to mitigate this adverse variance in 2017/18 and future years.
Children and young people get a good start in life.	The pressure on Home to School Transport has arisen as a result of increasing demand particularly since 2015 when a change in legislation required the authority to provide transport for children aged 0-25 that have additional educational needs. A one-off contribution of £350k was made to reduce the overspend in 2017/18	0.61	A one off pressure has been included in the updated MTFS for 2018/19 of £0.39M and the authority has an action plan to address the pressure by undertaking a strategic transport review.
Children and young people get a good start in life	Lower than anticipated income generation for Education Psychology services due to resources directed to undertake increased statutory activity.	0.13	Restructuring the Psychology service as part of the phase 3 review will allow the service to further develop its trading and income generating activities and mitigate the current pressures.
Children and young people get a good start in life	Unachieved High Needs Savings	0.30	A review of the service is expected to identify efficiency savings that will mitigate this pressure in future years.
Children and young people get a good start in life	Savings in respect of Service Cost Recovery that will not be achieved.	0.45	This pressure has been included in the MTFS for 2018/19 and future years.

Outcome	2017/18 Pressure		How this is being dealt with in the MTFS Model
	Description	**£M**	
People in Southampton live safe, healthy independent lives.	Unachieved savings on Adult Mental Health & Out Of Hours Services	0.49	Further savings plans have been developed to mitigate this pressure in 2018/19 and future years. These involve reviewing packages and approaching client referrals with a strengths based approach.
People in Southampton live safe, healthy independent lives.	Delay in the closure of Kentish Road	0.29	The future use of the Kentish Road site is still being reviewed and therefore currently only £0.1M of saving is expected to be realised in 2018/19.
People in Southampton live safe, healthy independent lives.	Increased agency staffing costs incurred in the single point of access service.	0.18	Following the implementation of the Phase 3 staffing review temporary staffing is expected to be replaced with permanent staff, therefore reducing costs in 2018/19.
People in Southampton live safe, healthy independent lives.	Additional demographic pressures due to demand and complexity. Unachieved savings for long term care.	3.46	Further savings plans currently being put into action should help mitigate this for 2018/19. The ongoing pressure on this service has been included in the update of the MTFS for 2018/19 and future years, which includes an additional budget pressure of £2.67M for demand and £1.07M for unachieved savings.
People in Southampton live safe, healthy independent lives	Houses in Multiple Occupation (HMO) – Unachieved licence income targets.	0.24	This will be met from other one-off savings in 2017/18. A detailed review of HMO licenses renewing in 2018/19 is being performed and additional income has been identified from properties that should previously have been registered. The mandatory HMO registration scheme is also being extended and

Outcome	2017/18 Pressure		How this is being dealt with in the MTFS Model
	Description	£M	
			more properties will become within scope. These factors should mitigate the 2018/19 pressure.
Modern Sustainable Council.	Additional one-off cost of recruitment in relation to Hays contract	0.16	This cost is not recurrent.
Modern Sustainable Council.	Unachieved IT savings in relation to: • Reducing IT Development Activity - £0.18M; • A reorganisation of IT provision - £0.19M; • Rationalisation of the number of IT licenses - £0.11M; and • One off pressure to support security of council data - £0.12M.	0.60	The recurrent savings will be achieved in future years with further review of development activity and licenses.
Modern Sustainable Council.	Unachieved digital savings in respect of efficiencies expected as a result of reviewing activity analysis where the digital solution has not achieved the desired outcome. Additionally, staff resource pressures as a result of the role out of universal credit.	0.00	A pressure of £0.56M in 2017/18 has been covered by in-year savings from staff vacancies. The ongoing pressure has been included in the MTFS for 2018/19 and future years.
Total		**8.48**	

37. Where a 2017/18 pressure has been identified as having a longer term impact the financial implications have been included within the updated MTFS position. Details are included within Table 4 below, the revised financial sections of the Outcome Plans at Appendix 1 and in paragraphs 42 to 46 and 58 to 59.

38. Further details on the forecast outturn position for 2017/18 are included within the Revenue Financial Monitoring for the Period to the End of December 2017 Report to be considered by Cabinet at its meeting on the 13th February 2018.

Medium Term Financial Forecast

39. Table 4 below identifies the changes to the Medium Term Financial Strategy Model as reported to Cabinet in November 2017 and updated to reflect the Executive's final proposed budget 2018/19 to 2021/22.

40. **Table 4 - MTFS Model**

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Original Savings Requirement - Feb 2017	**0.00**	**8.58**	**8.49**	**8.49**
Pressures				
Future Years Identified Pressures	5.87	3.55	3.83	3.83
MTFS Amendments				
Change in Central Grants Assumptions (New Homes Bonus & Business Rates Top Up Grants)	(1.00)	(1.00)	(0.30)	(0.30)
Review of Treasury Management Budget	(4.00)	0.00	0.00	0.00
Release of Central Inflation Provision	(0.87)	(0.87)	(0.87)	(0.87)
Remaining Savings Requirement - November 2017	**0.00**	**10.26**	**11.15**	**11.15**

EXPLANATION OF ADJUSTMENTS TO THE REVISED MTFS POSITION

<u>November 2017 Budget Position</u>

41. In November 2017 Cabinet noted a revised Medium Term Financial Position, which still maintained a balanced position in 2018/19, but increased the savings requirement in 2019/20 and 2020/21 to £11.15M. The following paragraphs explain the reasons for this change.

<u>Pressures</u>

42. <u>Children and Young People get a good start in life - £0.84M 2018/19</u>

As detailed in paragraph 36 the following pressures have been included in the MTFS;

- 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 (£0.39M). This pressure has been added for one year only in 2018/19 to allow for an overall review of transport requirement to be completed and actions implemented; and
- In addition, there are unachieved savings in respect of Service Cost Recovery that will not be achieved (£0.45M).

43. <u>Modern Sustainable Council - £1.26M 2018/19</u>

The council has undertaken the first wave of digital transformation which looked at service specific digital journeys. In some cases, the assumed staffing savings cannot be achieved. Staffing pressures also have arisen as a result of implementation of Universal Credit (£1.26M);

44. <u>Safe, Healthy & Independent Lives - £2.67M 2018/19</u>

Pressures within this portfolio are due to local demographics and the increasing complexity of adults requiring care.

It should be noted that the forecast pressure in 2017/18 is £4.4M adverse. This includes savings where implementation dates have slipped. In November the position gave a

	pressure in the current year but assumed the ongoing pressure would reduce to £2.67M in future years. Further work has been completed and further pressures have been identified in this area, this is detailed in paragraph 58.
45.	Strong, Sustainable Economic Growth - £1.10M • Unachieved income savings target 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 opportunities for Property Investment (£0.50M). This is further impacted by a decision to restrict future investment decisions following the changes to the Prudential Code that now require authorities to set aside minimum revenue provision; • 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); and • Unachieved income savings target linked to the development of Solent wide economic development, business support and employment and skills service. This income target was linked to funding that would have been received as part of the Solent Devolution Deal. As this funding will not be received it will be necessary to review how this service could be provided in the future (£0.1M).
46.	Where relevant, the above pressures have been reflected in the forecast outturn position for 2017/18.
	Funding Adjustments
47.	There are a number of changes in central grants assumptions (New Homes Bonus & Business Rates Top Up Grants).These changes are in line with the Local Government Finance Settlement 2018/19, but had been assumed prior to the settlement announcement. 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.
	Treasury Management Budget
48.	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.
	MTFS Adjustments
49.	Reduction in Centrally Held Allocations Held centrally are a number of allocations for inflation, increments, pension changes, redundancy and interest rate rises. This have been reviewed and to due staffing restructures, the low level of inflation and interest over the past year some of this allocation has been released.
	Provisional Local Government Finance Settlement
50.	The Provisional Local Government Finance Settlement (PLGFS) for 2018/19 was published on the 19th December 2017. This has led to an update of the council's financial position as shown in the following table:

Table 5 – PLGFS Changes

Explanation of Change	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Opening Budget Position	**0.00**	**10.26**	**11.15**	**11.15**
Revenue Support Grant (RSG) - replaced by business rates	17.06	0.00	0.00	0.00
Housing Benefit Subsidy Admin Grant	(0.92)	0.00	0.00	0.00
Council Tax Income additional 1% increase in the referendum limit	(0.89)	(0.89)	(0.89)	(0.89)
Business Rates – replacement RSG, section 31 grants and revise the inflation rate to CPI	(19.94)	(4.22)	0.00	0.00
Overall change to financial position	**(4.69)**	**5.15**	**10.26**	**10.26**

51. Housing Benefit Subsidy Admin Grant - Due to the roll out of Universal Credit the MTFS assumed that the council would not receive the Housing Benefit Subsidy Admin Grant in future years. However, a provisional figure of £0.92M has now been notified for 2018/19.

52. Business Rates - As a result of the Solent Region Business Rate Pilot, SCC will not receive RSG of £17.06M in 2018/19 as this is offset by the increased retention of Business Rates. In addition to this the council has received additional section 31 grants to recompense for the Government's announcement to change from RPI to CPI level increases in each financial year. The MTFS Model assumption was for an inflationary increase below the level of CPI therefore the income from business rates has also been adjusted.

53. The full details of all changes notified within the PLGFS are detailed within the MTFS in Appendix 2.

54. At the time of writing this report the final Local Government Finance Settlement has not been received, but any changes resulting from the final settlement will be taken into account when setting the final budget. The authority to delegate the power to Service Director Finance and Commercialisation to deal with these amendments.

FURTHER CHANGES

55. Table 6 below details further changes since the position reported to Cabinet in November 2017.

56. **Table 6 – Further Changes**

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Overall change to financial position	**(4.69)**	**5.15**	**10.26**	**10.26**
Further pressures identified	2.11	1.16	1.36	1.36
MTFS Adjustments – Pay award	0.80	1.70	1.80	1.90
New investment in services	2.46	2.08	2.08	2.08
Collection Fund Council Tax – Revised Base	(2.15)	(2.84)	(2.91)	(4.91)
Collection Fund Business Rates - Changes in Growth Assumptions	0.18	(1.04)	0.77	(0.49)
Review of Treasury Management Budgets – Minimum Revenue Provision	1.29	0.75	0.75	0.75
Revised Budget Gap - Final Budget Proposals	**0.00**	**6.95**	**14.10**	**10.94**

57. 2019/20 and future years budget gap to be addressed including further review of savings requirements and MTFS Funding Assumptions.

Revised Pressures

58. Since the November report was published there have been further changes to the position identified. These are set out below.

Southampton is an attractive and modern city - £0.75M

- The formation of a Local Authority Trading Company (LATCo) is currently being developed with the assumption that this would give rise to efficiency savings and increased income generation of £1M in 2018/19. This target was based on a full year operation of the LATCo. The first services are now likely to transfer to the LATCo from October 2018 and as such the anticipated saving in 2018/19 has reduced to £0.45M, a reduction of £0.55M. It is assumed in the MTFS that the full year saving will be achieved from 2019/20; and
- The Southampton Treasures Project aims to relocate significant Maritime and Local History Collections into the SeaCity Museum. Funding of £0.2M was approved in February 2017 to support this project. Due to the phasing of applying for Heritage Lottery funding to support the wider project, it is necessary to re-phase this funding from 2019/20 to 2018/19 (£0.2M.)

Strong Sustainable Economic Growth - £0.07M

- Expected increase in parking fee income will not be achieved (£0.07M).

Safe, Healthy & Independent Lives - £1.07M

- As the financial year has progressed a number of the savings proposed have been reviewed and either cannot be achieved or need to be re-profiled. This has resulted in a further pressure of £1.07M.

Modern Sustainable Council – £0.22M

Changes in central funding requirements in relation to education related grants.

59.	<u>MTFS Adjustments</u> Pay Award - The previous MTFS model was based on a pay award of 1% per annum. However, on 5th December 2017, the 'National Employers for Local Government Services' announced a higher pay offer to local government unions for the period 2018 to 2020. The offer comprises a two year deal with a headline flat-rate increase of 2.0% in 2018/19 and 2019/20. A 2% pay award has also now been assumed from 2020/21 and future years.
	<u>Other Changes</u>
	<u>Investment in Services</u>
60.	<u>Enterprise Resource Planning System</u> Cabinet received a report in December 2017 seeking approval to undertake the implementation of an Enterprise Resource Program (ERP). By implementing an ERP system it will enable the council to • Consolidate the number of IT applications, reducing the number of contracts, independent support and maintenance costs; • Rationalise and streamline business processes; • Enable easier access to correct data; • Provide a single view of debt; • Provide a single view of the employee; • Support the provision of a single point of payment for the customer; and • Improve management information. Cabinet approved the release of monies held in the Transformation Reserve (£1.18M) to meet the cost of the initial modules of the ERP project which has now been reflected in the MTFS. <u>Highways £1.10M 2018/19</u> A programme of works will be undertaken to address pot holes across the city with the aim to reduce the parameter for correction to 25mm and to shorten the timeline for undertaking works. Additionally, looking to address those roads that currently have a concrete surfacing and replacing the road surface to a more durable coverage. <u>Street Cleansing £0.41M 2018/19</u> A further mechanical sweeper will be added with additional street cleaners, focusing the activity in the City Centre on Green Spaces including the city parks. This will free up more skilled operatives to undertake more fee earning activity. This is supported in part by funding from the Business Improvement District (BID). <u>Enforcement Activity £0.25M 2018/19</u> Additional resource will be made available in Environmental Health to review issues raised and where relevant ensure that prosecutions are sought particularly in respect to noise nuisance complaints; fly tipping; and other anti-social behaviour. It is also intended to reinstate the late night noise complaints service on weekday nights. <u>Parks and Open Spaces £0.10M 2018/19</u> A small team will be created to deliver park and open space improvements including investments in safety, cleanliness and play. This is to ensure that investments in parks and open spaces infrastructure are delivered in a timely fashion. <u>Leisure and Heritage £0.38M 2018/19</u> Additional resources are required to ensure that funding bids are made for sports, recreation and heritage grants opportunities. This will include Sports Centre redevelopment, attracting investment in Heritage sites and to support Community Asset Transfer (CAT) proposals. It

	will also support the provision of more Christmas lights in the city. A further capital funding provision (funded by a direct revenue contribution to capital) will be made to invest in Heritage assets and to match fund capital grants. This will be invested, amongst other things the 'Walk the City Walls' experience ahead of the Mayflower 400 anniversary. <u>Customer Services £0.20M 2018/19</u> Further investment in provision of customer services support to reduce waiting times to speak to an operative when contacting council. <u>Installation of Water Fountains £0.02M</u> A small sum will be invested in water fountains within the city to encourage the reduction in use of plastic bottles and the reduction in consumption of sugary drinks. This is similar to a number of other councils. <u>Armed Forces Day £0.02M</u> A non-recurrent sum has been set aside to invest in Armed Forces Day. <u>British Legion Statues £0.004M</u> A sum of money will be invested in statues across the city to commemorate the armed forces.
61.	<u>Collection Fund - Council Tax & Business Rates</u> Council Tax (£2.15M) Each financial year the council tax base number of properties are reviewed. This year the increase has been higher than anticipated resulting in £2.15M being available. Business Rates £0.18M Assumptions regarding growth in business rates were built into last year's MTFS Model, whilst this growth is still expected to occur the profiling of when the new developments will be operational has been adjusted.
62.	<u>Review of Treasury Management – Minimum Revenue Provision</u> CIPFA has published two revised Codes, The Prudential code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (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 Treasury Management Strategy report that goes to Governance and council in February. This gives greater focus on investments that have not be been made purely for Treasury Management purposes i.e. investment in commercial properties. Linked to this the Ministry for Housing, Communities and Local Government (MHCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. The MHCLG has revised its Investment Guidance (and its Minimum Revenue Provision (MRP) guidance) for local authorities in England. The proposed changes are not as prescriptive as originally envisaged and still allow the council to make decisions within the concept of 'prudence'. However, clarification has been received that a prudent MRP cannot be nil or a credit. It has also proposed a maximum life for the MRP calculation of 50 years (equivalent to 2%) for freehold land without buildings on it and 40 years (equivalent to 2.5%) for all other assets. Many local authorities make commercial investments in order to achieve wider social and economic benefits for their local areas such as by economic regeneration or by providing

additional facilities for residents or visitors, and where they do so they are likely to rely on powers other than the 2011 Localism Act.

The council has purchased 3 assets as part the of the Property Investment Fund (PIF) and in doing so included in the MRP policy, a decision that MRP would be applied on the depreciation method which allowed a 0% rate to be applied. This was seen as prudent as it was intended that any capital receipt from the future sale of the assets would be used to offset the borrowing taken to fund these assets.

The proposed changes to the code could mean that the council will have to make additional provision to repay debt for any assets purchased as part of the PIF i.e. cannot apply a nil MRP.

This will therefore have an impact on councils' revenue budgets affecting delivery of services, possibility as early as the 2018/19 budget cycle. The amount of MRP per annum that would be payable on these properties is circa £1.29M in 2018/19. After 2018/19 a pressure of £0.75M has been included with a requirement for an action plan to manage this pressure ongoing to be presented to Capital Board. This may necessitate the disposal of these assets sooner than originally planned although this will generate capital receipts for further investment to meet the council's outcomes and priorities.

SUMMARY FINANCIAL POSITION

63. The table below summarises the financial position:

Table 7 – Summary Financial Position

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Opening Savings Requirement	**0.00**	**8.58**	**8.49**	**8.49**
Pressures identified	7.98	4.71	5.19	5.19
Investment in Services	2.46	2.08	2.08	2.08
Council Tax	(3.04)	(3.73)	(3.80)	(5.80)
Business Rates	(19.76)	(5.26)	0.77	(0.49)
Central Government Funding	15.14	(1.00)	(0.30)	(0.30)
Review of Treasury Management	(2.71)	0.75	0.75	0.75
Release of Centrally Held Funds	(0.07)	0.83	0.93	1.03
Remaining Savings Requirement	**0.00**	**6.95**	**14.10**	**10.94**

	THE COLLECTION FUND
64.	The income from council tax and non-domestic rates is reflected initially in the Collection Fund Account, which is a statutory account that records the collection and distribution of taxation. Utilising the Key Assumptions within the MTFS, the forecast position for Southampton City council for the collection fund is shown in Table 8. **Table 8 – Collection Fund**

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Council Tax - General Precept	88.94	91.43	93.39	95.39
Council Tax - Adult Social Care Precept	6.99	7.04	7.04	7.04
Business Rates	99.21	54.69	57.15	58.33

65.	**Council Tax**
66.	The Executive are recommending an increase in council tax for 2018/19 of 2.99%, with regard to the general power to increase council tax prior to referendum. They are also recommending that council tax is increased by 3.00% for the Adult Social Care Precept, with the increase for this element all being used to fund Adult Social Care pressures detailed elsewhere in the report. £95.93M is the level of council tax required to provide a balanced budget for 2018/19. This is then divided by the council tax base set by the S151 Officer, following consultation with the Cabinet Member for Finance, to give the basic amount of council tax for a Band D equivalent of £1,448.74 plus £42.20 for the Adult Social Care Precept making a council tax of £1,490.94 this is a 5.99% increase. The full calculation is set out in Appendix 3. This does not include amounts from other precepting authorities.
67.	The estimates of the payments from the collection fund in the form of precepts for 2018/19 are set out in Appendix 4. This also details the increase in council tax by property band for 2018/19. This includes preliminary figures for the Police & Crime Commissioner (PCC) and the Fire Authority. The PLGFS allows for an increase up to £12 for PCC and this has been proposed giving an increase of 7.25% on their precept. The Fire Authority have proposed an increase of 2.98% on their precept. Whilst these are the proposed increases these are subject to formal approval.
68.	The figures for both the PCC and the Fire Authority may not be approved until after 21st February 2018 and therefore this report requests a delegation of authority to the S151 Officer to implement any variation to the overall level of council Tax arising from the final notification of the Hampshire Fire and Rescue Authority precept and the Police and Crime Commissioner for Hampshire precept.
69.	The council tax base for 2018/19 has been set at 64,345 properties using delegated powers granted by full council on 17th January 2007. This reflects the expected growth in the tax base and any adjustments for the Council Tax Reduction Scheme.
70.	**Business Rates**
71.	The amount to be retained and the amounts to be paid to central government and major precepting authorities are fixed at the start of the financial year on the basis of the billing authority's estimate of its business rate income for the year. Any variation is recognised as

	part of the end of year accounting process for the collection Fund and any surplus can be utilised in the budget whilst any deficit must be made good.
72.	The non-domestic rates (NDR) estimate for 2018/19 has now been completed and the statutory notification return (NNDR1 Form) has been completed. Given the continued uncertainty of the impact of in year adjustments such as appeals, the form allows for estimated growth / decline of various elements. After allowing for these various elements and the impact of the Autumn Statement 2017 changes (funded by Section 31 Grant) the council's net rates payable for 2018/19 is £115.45M.
73.	After allowing for estimated losses in collection of £2.31M and estimated repayments in respect of the 2017/18 Rates of £5.43M giving a collectable rates figure of £107.71M.
74.	This is further adjusted to exclude Transitional Arrangements additional income of £2.02M, all payable to central government, and £0.31M costs of collection giving non domestic rating income of £105.38M.
75.	As detailed in paragraphs 18 to 22, SCC is part of the Solent Region Business Rates Pool and 100% Business Rates Retention Pilot for 2018/19. Any pilot has to be fiscally neutral to the government therefore the council foregoes Revenue Support Grant £17.06M and becomes a tariff authority rather than receiving a top up grant (£4.4M). The tariff will be £28.29M for 2018/19.
76.	There is a one off sum of £0.54M adjustment to the top up grant payable to the authority for 2017/18 in relation to the 2017 revaluation of the rating list to be paid in 2018/19.
77.	In addition to income received from the collection of Business Rates, the council will receive grants under Section 31. Under the pilot scheme in 2018/19 these amount to £6.14M.
78.	It should be noted that as a result of retaining 99% of the business rates, the pool will receive the share of growth in rates that would have been paid over to central government. The mechanism for allocating this growth between the pool members is currently being finalised and will be approved by the Leaders of the three councils as part of the governance framework.
79.	It is estimated that SCC's share of this growth will initially be in the region of £2.5M however, this has not been included in the updated MTFS as this stage. The amount will be finalised during 2018/19 and cannot be utilised to support the budget position until 2019/20. This will be included in future updates of the MTFS once clarification on the amount is given.
80.	The overall level of expected income for business rates for 2018/19 is expected to be £77.06M to support the revenue position. It should be noted that £17.06M of this is offset by the loss of RSG that will not be received under the pilot.
	PUBLIC HEALTH GRANT
81.	The Public Health Grant, which was introduced in April 2013, will continue to be a ring-fenced grant to local authorities into 2017/18 and 2018/19. The final allocation of Public Health Grant for 2018/19 is £16.94M. The Public Health Grant has already seen year on year reductions from 2015/16 and will continue to reduce as outlined in Table 9 below.

82.	**Table 9 Public Health Grant Reductions**

	2018/19	2019/20
Public Health Grant	£16.94M	£16.52M
Percentage reduction in total grant from 2015/16 baseline	2.57%	2.64%

83.	The council is committed to identifying savings from within the total Public Health Programme, comprising the delivery of internal and external services, in order to achieve the level of savings required.
84.	The grant reduction in 2018/19 is £0.47M, with a further £0.42M to be achieved in 2019/20, as well as inflation and pay awards needing to be contained within expenditure resulting in a requirement to save a total of £0.95M in the next two years. After this the expectation is this funding will be removed completely as part of the Business Rates Retention scheme.
	<u>RESERVES AND BALANCES</u>
85.	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.
	<u>Earmarked Reserves</u>
86.	The council has a number of earmarked reserves that have been set aside for specific reasons. These reserves can be split into two categories: a. Those required to be kept by statute or accounting guidance e.g.revenue grants reserve, School Balances. These reserves can only be utilised for the purpose for which they have been set aside. b. Those set aside for a future event that has a high probability of occurring, e.g. Transformation Reserve.
87.	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 and the subsequent budget shortfalls that the council would then face and the overall local and national economic factors which can affect the financial stability of the council.
88.	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>
89.	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.
90.	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 has been reviewed again for the MTFS update, taking into consideration both risk and affordability.

	SCHOOLS UPDATE
91.	Currently there are 8 schools reporting a deficit balance in 2017/18. The 4 schools with the largest deficits have been working with the Children and Families service area to agree Deficit Recovery Plans (DRP) and work is also continuing with the remaining schools to develop and have approved Deficit Recovery Plans in place.
92.	As previously reported there is a significant pressure within the High Needs Budget, and a number of options have been previously approved, including a one off contribution from General Fund Reserves, to facilitate a workable solution. Further pressures identified as a result of ongoing increased demand will see the original pressure of £2.9M increase to around £3.3M in 2017/18 and a further review of budgets is continuing to mitigate the further pressures in the current year. However it is expected the High Needs block will be in deficit by £1M by the end of the 2017/18 financial year. Going forward a detailed review of the costs, processes and procedures will be undertaken to rationalise the High Needs Offer within the funding available within the Dedicated Schools Grant.
93.	It should be noted that this pressure increases to £3.53M in 2018/19. However, in recognition that there is a national high needs funding issue, the Government have allocated additional DSG monies in 2018/19. SCC will receive an additional £1.1M, which is the maximum available and will continue to receive the maximum increases in future years. At the Schools Forum in January 2018, agreement was reached to ‘top slice’ 0.5% of the Schools Block DSG to help meet the high needs pressure funding a further £0.7M. At this stage this results in a deficit position in 2018/19 of £1.73M. If the 2017/18 expected deficit is not addressed the deficit will be £2.73M by the end of 2018/19. In order to address this futures years additional funding will need to offset this initially along with a review of the high needs service provision.
94.	It has been assumed that the above noted pressures will need to be accommodated within the Dedicated Schools Grant (DSG).
	HOUSING REVENUE ACCOUNT
95.	The HRA records all the income and expenditure associated with the provision and management of council owned homes in the City. This account funds a significant range of services to over 16,000 homes for Southampton tenants and their families and to over 1,900 homes for leaseholders. This includes housing management, repairs and improvements, welfare advice, supported housing services, neighbourhood wardens, and capital spending on council properties.
96.	**2017/18 Forecast Position**
97.	The income and expenditure budgets for the HRA were approved by council in February 2017 as shown in table 10 below, with a net draw required from the HRA balances of £1.00M.
98.	The year-end forecast position for 2017/18 shows an adverse forecast variance of £0.86M compared to this budget.

	2017/18 Budget	Quarter 3 Forecast	Variance

	£M	£M	£M
Net rent income	(72.59)	(72.59)	0.00
Service charges & other income	(2.27)	(2.39)	(0.12)
Misc. Adjustments	0.00	0.00	0.00
RTB admin	(0.13)	(0.13)	0.00
Total income	**(74.99)**	**(75.11)**	**(0.12)**
Management	21.95	22.13	0.18
Depreciation	19.26	19.26	0.00
Responsive & Cyclical repairs	13.91	14.71	0.80
Other revenue spend	0.10	0.10	0.00
HRA cost of rent rebates	0.00	0.00	0.00
Total service expenses	**55.22**	**56.20**	**0.98**
Capital charges	5.98	5.98	0.00
Repayment of loans	5.59	5.59	0.00
Revenue contribution to capital	9.19	9.19	0.00
Total expenditure	**75.99**	**76.97**	**0.98**
(Surplus) / Deficit for the year	**1.00**	**1.86**	**0.86**

Table 10 – HRA Forecast Outturn Position 2017/18

99. The variance of £0.86M 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.
- An increase in the provision for bad debts to reflect the increasing rent and service charge arrears as a result of the introduction of Universal Credit

Work is ongoing to identify further in-year savings to mitigate the variance, but the current assumption is that an expected underspend on the capital programme will enable £0.86M of reduced revenue contribution to capital in 2017/18.

<u>Medium Term Financial Position</u>

100. This report sets out the HRA revenue budgets for 2018/19 and the 30 year HRA business plan covering the period 2018/19 to 2047/48. The proposed changes to rents and other charges are an integral part of the revenue estimates for 2018/19.

101. The HRA Business Plan supports a number of council strategies, including the Medium Term Financial Strategy, to ensure plans are affordable and budgets are aligned to the assumptions detailed in those strategies. The specific HRA Business Plan priorities are summarised below:

- All HRA debt can be repaid over the 30 year life of the Plan.
- The capital spending plans include provision to maintain and improve all existing dwellings and feature an increase in the level of planned expenditure in the early years.
- This investment can be achieved within the Government's borrowing limit of £199.6M, also known as the 'debt cap'. Additionally, a reserve of at least £6M borrowing headroom is retained throughout.
- As a result of additional voluntary minimum revenue provision payments (MRP) the ratio of financing costs to new revenue stream, which is an indicator of affordability

	and highlights the revenue implications of existing and proposed capital expenditure, significantly increases in 2019/20 and then reduces over the remainder of the MTFS period. This is further reflected in the Treasury Management Strategy & Prudential Limits Report which will be reported to council in February 2018. • A provision of £93M is set aside for stock replacement, which will support the renewal of any of the existing dwellings that may be required over the next 30 years. This provision has been phased between year 7 and year 30 of the Plan. • Following the Chancellors announcement in the Autumn Statement the council will be reviewing whether to complete a bid to central government to raise the HRA borrowing cap. The revenue budget meets the minimum balances of £2M over the life of the Plan.
102.	The HRA Business Plan has consistently shown revenue balances that increase above minimum levels within the 30 year period. This remains the case, although in the proposed updated plan for 2018/19 onwards the year 30 projected revenue balance will be reduced to £3.1M. The surpluses are liable to change annually, either favourably or not, and will reflect the annual review of stock investment needs and estimated unit rates. The predicted revenue surpluses do however begin to exceed minimum levels in 2022/23 rather than 2021/22. This is linked to the additional fire safety works of £14.9M required as a consequence of the Grenfell Tower disaster which have increased the cost of the capital programme.
103.	Since the 30 year HRA Business Plan was approved as part of the 2017/18 budget setting process at full council on 15th February 2017, there have been further developments which have had a material effect on the Business Plan. These relate to capital expenditure and are detailed elsewhere on this agenda as part of the General Fund & Housing Revenue Account Capital Strategy & Programme 2017/18 to 2021/22 report. In summary, this mainly relates to the Grenfell Tower disaster, fire safety remedial works have been identified as being required for 20 high rise HRA owned blocks of flats within the city. This may result in the need to breach the HRA borrowing headroom in order to meet the costs of these works.
104.	A 30 year HRA Business Plan has been prepared and the summary for the revenue and capital budgets is set out in Appendices 7 and 8. To ensure all council plans are aligned these reflect the key planning assumptions set out in the Medium Term Financial Strategy.
105.	The HRA capital programme was last updated and approved in November 2017. These spending plans have now been reviewed to take account of the latest estimated costs and phasing of those schemes and the forecast change in resources. The proposed February 2018 programme is shown in detail as part of the General Fund and Housing Revenue Account Capital Programmes 2017/18 to 2021/22 report. The changes in the overall programme are summarised by year in a table in that report as well as details of significant changes since the last update.
	Rent & Service Charge Increases
106.	In order to address the HRA budget gap it has been necessary to review the charges currently levied for both garages and parking spaces. In reviewing what the charges are for similar service provision in the private sector it has been established that the council's rates are lower by comparison. Based on this, financial modelling has been undertaken to establish what increase in charges can be accommodated to increase income targets without a material impact on voids. Approval is sought to increase charges by 15% for Garages and 10% for Parking Spaces. It should be noted that council tenants have not seen an increase in these rents above inflation for a number of years (non-council tenants had a

	flat increase of £1 in 2016/17).
107.	In line with the Welfare Reform and Work Act 2016, HRA rents will be reduced by 1%. This is a four year programme of rent reductions and will continue until end of the 2019/20 financial year.
108.	Approval is sought to increase service charges by 3% from 1st April 2018 (including supported accommodation) based on a full cost recovery approach. This gives revised service charges as follows: <u>General Service Charges</u> • Digital TV £0.43 (£0.01 increase from 2017/18) • Concierge monitoring £1.24 (£0.04 increase from 2017/18) • Tower Block Warden £5.12 (£0.15 increase from 2017/18) • Cleaning service in walk-up blocks £0.65 (£0.02 from 2017/18) <u>Supported Accommodation</u> • Call Monitoring Charge - £1.29 (£0.04 increase from 2017/18) • Careline Silver - £3.09 (£0.09 increase from 2017/18) • Careline Gold - £4.38 (£0.13 increase from 2017/18)
	Other Key Assumptions
109.	Rent arrears have risen in the current financial year 2017/18, linked to the impact of Welfare Reform. Although there is a short term impact on the Business Plan, with bad debt provision temporarily rising by 0.5% over the next 5 years, it is expected that in the longer term, the debt position will stabilise in line with national policies and internal debt collection processes.
	Savings Proposals
110.	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. Savings proposals of £3.94M have been identified and were reported to Cabinet in November 2017. The table below provides an update on the current HRA budget position:

Table 11– HRA Budget Position Update

	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Original Savings Requirement	**0.00**	**3.94**	**7.84**	**8.16**	**8.42**
Pressures					
2017/18 Forecast Outturn Position (Paragraph 39)	0.86	0.00	0.00	0.00	0.00
Future years identified pressures – none currently identified	0.00	0.00	0.00	0.00	0.00
Savings					
One-off contribution from Heating Account	0.00	(0.39)	0.00	0.00	0.00
Efficiency Savings	0.00	(0.14)	(0.15)	(0.15)	(0.15)
Income Generation	0.00	(0.02)	(0.02)	(0.02)	(0.02)
Service Reductions	0.00	(0.45)	(0.45)	(0.45)	(0.45)
Reduction in Contribution to Capital Funding	(0.86)	(2.94)	(3.07)	(3.12)	(3.12)
Amended savings requirement	**0.00**	**0.00**	**4.15**	**4.42**	**4.68**

111. In 2013/14 the HRA made a contribution of £0.39M 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 £0.80M, and in 2018/19 will be in a position to now make a repayment to the HRA.

112. Efficiency savings, Income generation and Service Reductions savings have been explored, including reduction and cessation of various corporate subscriptions, as well as potential further service redesign. None of the proposals impact on staffing and therefore it has not been necessary to undertake a consultation process.

113. 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 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.

114. The above savings proposals have now been finalised and do not required the need for public consultation.

HRA Balances

115. The HRA Business Plan has consistently shown revenue balances that increase above minimum levels within the 30 year period. This remains the case, but in the proposed updated plan for 2017/18 onwards the year 30 projected revenue balance will reduce to £38.39M compared to the equivalent figure of £26.35M in the previous approved plan. As previously reported, the main risk to the long term plan is that, if building inflation was to exceed general inflation over a prolonged period, this would have a significant adverse impact on HRA balances. Therefore the surpluses are liable to change annually, either

	favourably or not, and will reflect the annual review of stock investment needs and estimated unit rates. The predicted revenue surpluses now begin to significantly exceed minimum levels in 2022/23, compared to 2021/22 in the previous plan.
116.	It will be necessary to regularly undertake sensitivity analysis to assess the impact of external influences such as building inflation and changes to CPI on the business plan so that the overall budget position can be maintained to support investment in services and properties to meet the expectations of tenants and our regulatory requirements.
117.	The HRA minimum balance will remain at £2M.
	STATEMENT OF THE SECTION 151 OFFICER IN ACCORDANCE WITH THE LOCAL GOVERNMENT ACT 2003 – ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES
118.	Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for "the proper administration of their financial affairs' and appoint a Chief Finance Officer (CFO) to have responsibility for those affairs. The CFO must exercise a professional responsibility to intervene in spending plans in order to maintain the balance of resources so that the authority remains in sound financial health.
119.	Section 25 of the Local Government Act 2003 (LGA 2003) imposes a duty on the Chief Financial Officer (CFO) to report formally to full council on the following matters:- • The robustness of the estimates made for the purpose of the calculations (to set the council tax). • The adequacy of the proposed financial reserves. The council is required to set a balanced budget each year and a minimum level of revenue balances and reserves must be specified within the budget, and be taken account of when setting the budget requirement.
120.	In setting the budget the council should have regard to the strategic and operational risks it is facing. Some of these risks reflect the current economic climate, the national issues surrounding local authorities and increasing demand for services.
121.	In considering the robustness of estimates the S151 Officer has examined the major assumptions and has carried out some sensitivity analysis to ascertain the potential risk and reasonableness of underlying budget assumptions such as:- ▪ The reasonableness of provisions for inflationary pressures; ▪ The likelihood of interest rate rises; ▪ The extent to which known trends and pressures have been provided for; ▪ The achievability of change built into the budget; ▪ The realism of income targets; ▪ Third party provider risks; ▪ A review of major risks associated with the budget; ▪ The availability of the General Fund Balance to meet cost pressures from unforeseen events; and The strength of the financial management and reporting arrangements.
122.	In coming to a view the Service Director Finance & Commercialisation (S151 Officer) has taken into account the risks, issues and mitigations set out in Appendix 6 - Key Financial Risks.
123.	All these risks have been rated using the council's risk assessment criteria. Key points from this assessment are detailed below.

124.	There has been a sensitivity analysis carried out on the underlying assumptions contained with the MTFS Model, around inflation, interest rates and income estimates.
125.	There has been an assessment of the required General Fund Balance to meet cost pressures of unforeseen events and third party risk.
126.	Detailed estimates have been prepared by each service area based on levels of service required to achieve the outcome plans. In completing this exercise service areas have reviewed the risk associated with the individual business plans. Where these risks are seen as significant they have been added to Appendix 6.
127.	As the 2017/18 year has progressed savings proposals have been implemented and further planning and verification of the proposals for 2018/19 has taken place. In some instances this has resulted in a reduced saving all of which have been taken into account in setting the budget and reviewing pressures. However due to the level of savings required and, in some areas, the complexity, there is still a risk to the business, as the budget assumes these will be implemented with sufficient pace. The achievement of these savings proposals has been and will continue to be monitored by the Senior Leadership Team throughout the coming year, but as a consequence the MTFS Reserve is still seen as key reserve to be maintained.
128.	Significant financial pressures experienced in 2017/18 have, where appropriate, been recognised in preparing the estimates included in this report, as can be seen from table 3 in paragraph 36.
129.	The financial management and reporting arrangements have continued to be strengthened in the past twelve months with the introduction of finance business partnering and the continuation of monthly monitoring reports to the council Management Team in a timely fashion. The revised process for dealing with areas which have budgetary pressures by ensuring there are action plans in place and intensive care meetings with the Senior Leadership Team are in place to ensure the plans are robust and being achieved. The impact of these measures can be seen from the financial position regarding Children and Families, which at the end of the 2017/18 financial year was in a surplus position for the first time in a number of years, and current forecasts look like this position is set to continue.
130.	For the second time the setting of a balanced budget is not reliant on the utilisation of the General Fund balance. This gives us the opportunity, given the level of economic uncertainty to maintain the level of the balance without any further contributions giving us the opportunity to review this balance in light of the economic uncertainty faced by the council.
131.	In addition to the budget risks the collection of council Tax and the generation of business rates are two key risks which need to be closely monitored. An assessment of the anticipated business rates income has been carried out based on the information available and a provision made for appeals. The anticipated growth in business rates and council tax fed into the estimates has broadly been achieved, with relatively minor slippage in business rates. However 2018/19 not only relies on further growth but also introduces 100% business rates retention which makes us more reliant on business rate income increasing the potential risk associated with these estimates, but in the S151 Officer's opinion these have been identified and provided for within the Taxation Reserve, which if resources are available will be strengthened at the end of the financial year.
132.	Overall the risk associated with the General Fund and the Housing Revenue Account budget is still at a relatively high status given the quantum and complexity of savings, however these risks have been identified and mitigations put in place.
133.	Looking forward there are a number of potential risks on the horizon;

	• the end of the Comprehensive Spending Review in 2019/20 • the proposal to implement a revised funding formula • increase in the frequency of valuations • the move to 75% Business Rates Retention
134.	As a result of these potential future risks it is the S151's opinion that the General Fund Balance should be maintained at £11.3M, and when possible the taxation reserve increased. However following the analysis it is the S151 officer's opinion that the overall level of reserves and balances are adequate.
	BUDGET CONSULTATION
135.	There has been 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.
136.	The aims of the public consultation are to: a. Communicate clearly and make residents aware of the financial pressures the council is facing; b. Ensure residents understand what is being proposed in the updated 2018/19 budget and are aware of what this will mean for them; 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; and e. Provide feedback on the results of the consultation and how these results have influenced the final decision.
	STAFFING IMPLICATIONS
137.	The 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.
138.	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.
139.	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: • Voluntary solutions; • Early and Flexible retirement; and • Voluntary redundancy and proposals from employees such as reduced hours.

	EQUALITY AND SAFETY IMPACT ASSESSMENTS
140.	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.
141.	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.
142.	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.
143.	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.
RESOURCE IMPLICATIONS	
Capital/Revenue	
144.	The capital and revenue implications are fully detailed within the report.
Property/Other	
145.	None
LEGAL IMPLICATIONS	
146.	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.
147.	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.
148.	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.
149.	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 2018 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.
150.	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.
151.	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.
152.	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.
153.	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.
154.	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 (FPR’s) 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.
<u>Other Legal Implications</u>	
155.	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.

RISK MANAGEMENT IMPLICATIONS	
156.	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.
157.	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: • Additional costs are being incurred to install sprinkler systems in all tower blocks on the advice of Hampshire Fire & Rescue and specialist fire safety consultants following the Grenfell Tower Block Fire. These costs are being met by the HRA; • Southampton's joint bid with Portsmouth and the Isle of Wight to become a pool pilot in 2018/19 for 100% retention of business rates has been accepted by the MHCLG. As a result Southampton will benefit more from business rates growth in the pool area, although there is an increased risk of an overall reduction in funding if business rates fall. Arrangements have been put in place as part of the pool agreement to mitigate this risk; • Potential risk of savings proposals not being achieved and insufficient mitigations found to deal with in year – this is covered by the MTFS reserve; • High Needs Funding – due to increasing pupil numbers within special schools and the associated cost of Home to School transport, there is a £3.3M in 2017/18 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; and • 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).
158.	The Financial Risk Register is attached as appendix 6.
POLICY FRAMEWORK IMPLICATIONS	
159.	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.

KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	**All**

SUPPORTING DOCUMENTATION

Appendices	
1.	Outcome Plan Annexes
2.	Medium Term Financial Strategy 2018/19 to 2021/22
3.	2018/19 Council Tax Calculation

4.	2018/19 Collection Fund Estimates
5.	Statutory Powers To Undertake Proposals In The Report
6.	Key Financial Risks
7.	HRA 30 Year Business Plan Operating Account
8.	HRA Major Repairs & Improvements Plan
9.	HRA Savings Proposals 2018/19

Documents In Members' Rooms

1.	None
2.	

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