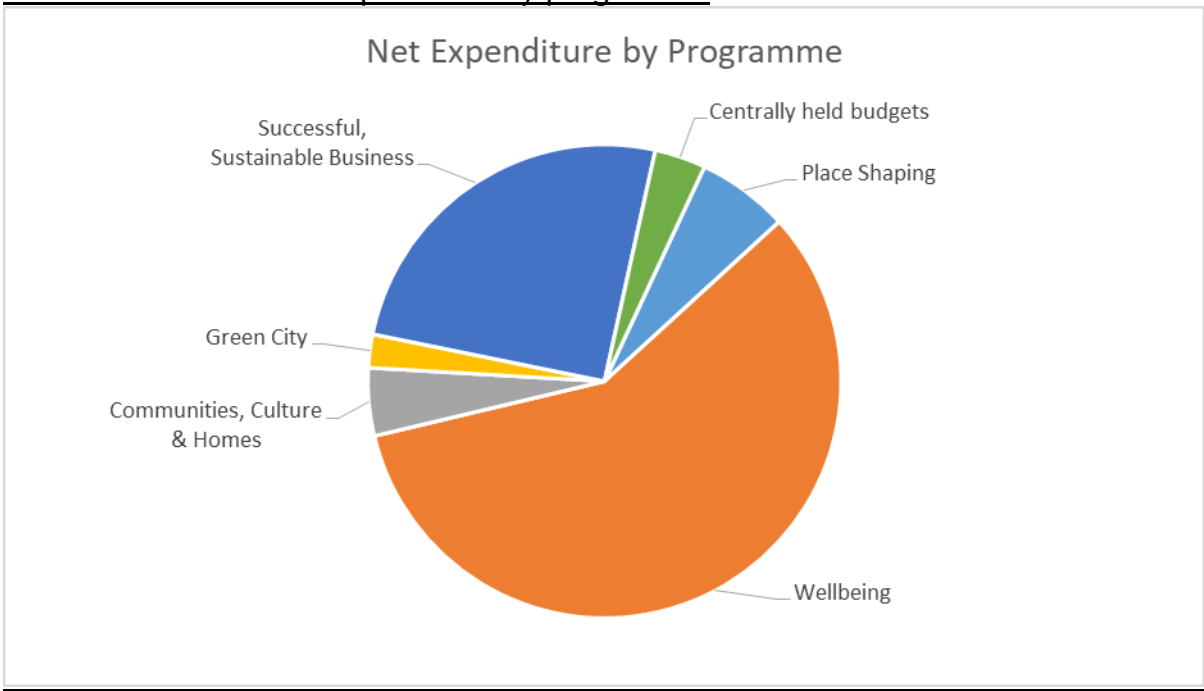


APPENDIX 1

THE REVENUE BUDGET 2020/21 AND MEDIUM TERM FINANCIAL STRATEGY 2020/21 TO 2022/23	
<u>INTRODUCTION</u>	
1.	This report sets out how the budget for 2020/21 will be balanced whilst supporting the delivery of the key priorities of the authority.
2.	This budget provides value for money with public resources and forms part of the approach to build financial stability over the medium to long term. The report also provides an update on the Medium Term Financial Strategy (MTFS) for the period to 2022/23. The proposed net revenue budget for 2020/21 is £190.8M, compared with the current year of £189.6M.
3.	<p>The settlement confirmed that the Adult Social Care (ASC) levy continues to apply, with the flexibility to raise the council tax by up to 2% for 2020/21 for this purpose. The authority proposes to protect Adults' Social Care services via providing additional funds, through a rise of just under 2% for the Adults' Social Care precept element of the council tax, for the benefit of the increasing number of residents who rely on this service.</p> <p>The Government has also provided some additional funds for Adults and Children's social care services, via £1Bn nationally in specific grant and via the improved Better Care Fund (iBCF), but adequate funding for all social care (both Adults and Children's) continues to be a major concern over the longer term.</p>
4.	The Council wishes to protect services for the vulnerable by raising funds which will be specifically allocated to Adults Social Care via the levy of just under 2%, but at the same time is mindful of the financial pressures many local residents face. For 2020/21, therefore, the council is foregoing a rise in its 'core' council tax level, which could be set at up to 2% without a referendum being required.
5.	The Council is required to prepare a separate Capital Strategy, setting out a high-level, long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services. Details regarding the Council's Capital Strategy and Capital Programme are set out in Appendices 2 and 3 to the budget report. The revenue implications of the capital programme are built into the General Fund Medium Term Financial Forecast and the Housing Revenue Account Business Plan.
<u>STRATEGIC CONTEXT</u>	
<u>Spending Round 2019</u>	
6.	With 2019/20 marking the final year of the 2015 Comprehensive Spending Review a new set of medium term spending proposals were expected this year. Instead, the government published a single year Spending Round in early September 2019, setting out public expenditure plans for the 2020/21 financial year.
7.	The main feature of the Spending Round was the announcement of additional funding for social care, alongside continuation of existing adult social care grants and proposals to consult on a 2% social care precept.
8.	Changes to the local government finance system arising from the Fair Funding Review and reforms to the Business Rates Retention Scheme were delayed by a year to 2021/22.
9.	Further details of the Spending Round are provided in section 1.4.1 of the Medium Term Financial Strategy (Annex 1.1).

	<u>Provisional Local Government Finance Settlement</u>
10.	The 2020/21 provisional settlement was announced on 20 th December 2019, being delayed due to the General Election. It largely confirmed the announcements in the Spending Round and the settlement technical consultation that followed in October 2019. The figures were confirmed on 6 th February 2020 when the final settlement was published, subject to a final vote by MPs once debated in Parliament. Funding for Southampton in the final settlement as published on 6 th February matches the provisional settlement.
11.	As well as the extra social care funding, the settlement confirmed the continuation of New Homes Bonus (NHB) into 2020/21, with proposals for a Spring 2020 consultation on a new targeted approach to rewarding housing growth for future years. Funding arising from the settlement was therefore broadly as expected, but with an additional £0.2M from the NHB compared with the budget update reported to Cabinet in October.
12.	Further details of the provisional settlement are provided in section 1.4.2 of the Medium Term Financial Strategy (Annex 1.1).
	<u>Other national issues affecting the MTFS</u>
13.	The Queen’s Speech at the State Opening of Parliament on 19 th December 2019 announced a number of measures that will impact on the City Council and its finances.
14.	The government's priority of exiting the European Union and negotiating a free trade agreement with the EU is likely to have a significant impact on local government and on both UK and EU citizens who live and work in the UK.
15.	Other proposals put forward in the Queen’s Speech that are likely to have financial consequences for the Council include: <ul style="list-style-type: none"> • Providing extra funding for social care and seeking cross-party consensus for long-term reform of adult social care • Modernising and reforming the Mental Health Act • Increasing levels of education funding per pupil • Introducing a Building Safety Bill and measures to implement recommendations from the first phase on the Grenfell Tower Public Inquiry • Increasing the National Living Wage • Serious Violence Bill – placing a statutory duty on public bodies to work together to reduce levels of serious violence • Re-introducing the Domestic Abuse Bill • Environment Bill – enshrining in law that the UK should be net carbon neutral by 2050 • Reforming business rates (with specific reference to high streets), bringing forward the next rates revaluation and making future revaluations more frequent • Increasing local powers to tackle air pollution
	<u>LOCAL CONTEXT</u>
	<u>Council Priorities</u>
16.	The revenue budget and MTFS are integral to the delivery of the City Council Strategy. The Strategy sets out the Council’s vision and has five themes to deliver the strategic goals of a greener, fairer, healthier City, which are: <ul style="list-style-type: none"> • Place Shaping • Wellbeing • Communities, Culture, & Homes • Green City

	<ul style="list-style-type: none"> • Successful, Sustainable Business 														
17.	The Council uses a programme area based business planning approach to ensure resources are directed towards agreed priorities. Chart 1 below shows the £189.6M revised net revenue expenditure budget for 2019/20 broken down over programmes.														
18.	<p><u>Chart 1 – Net revenue expenditure by programme</u></p>  <table border="1"> <caption>Net Expenditure by Programme</caption> <thead> <tr> <th>Programme</th> <th>Approximate Expenditure (£M)</th> </tr> </thead> <tbody> <tr> <td>Wellbeing</td> <td>100.0</td> </tr> <tr> <td>Successful, Sustainable Business</td> <td>40.0</td> </tr> <tr> <td>Centrally held budgets</td> <td>10.0</td> </tr> <tr> <td>Place Shaping</td> <td>10.0</td> </tr> <tr> <td>Green City</td> <td>5.0</td> </tr> <tr> <td>Communities, Culture & Homes</td> <td>5.0</td> </tr> </tbody> </table>	Programme	Approximate Expenditure (£M)	Wellbeing	100.0	Successful, Sustainable Business	40.0	Centrally held budgets	10.0	Place Shaping	10.0	Green City	5.0	Communities, Culture & Homes	5.0
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<u>Government Funding Reductions</u>															
19.	The settlement funding assessment (SFA) is the Government’s calculation of funding required by a local authority after allowing for income generated from council tax.														
20.	The Government’s austerity measures have resulted in a significant reduction in the Council’s settlement funding assessment over recent years. Between 2013/14 (when the current local government finance system was introduced) and 2019/20, the Council’s SFA reduced by almost a half from £121.0M to £65.3M.														
21.	For 2020/21 the SFA has been given an inflationary uplift in the local government finance settlement, however this only equates to a £1.0M increase compared to the £55.7M reduction over the previous 6 years.														
22.	Further details are provided in section 2.1.1 of the Medium Term Financial Strategy (Annex 1.1).														
<u>Cumulative Budget Reductions</u>															
23.	Southampton City Council has included agreed budget reductions including cuts worth over £151M in its budget from 2012/13 to 2019/20 and including any step-up in amounts for future years, which has been a necessary part of achieving a balanced budget. More details are included in section 2.1.2 of the Medium Term Financial Strategy (Annex 1.1).														
<u>MEDIUM TERM FINANCIAL STRATEGY AND GENERAL FUND BUDGET</u>															
24.	The Medium Term Financial Strategy (MTFS) provides a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the Council’s priorities.														
25.	There are 6 key aims of the Strategy: <ul style="list-style-type: none"> • To provide financial parameters within which budget and service planning should take place; 														

	<ul style="list-style-type: none"> 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. 																																				
26.	Given the uncertainty of public expenditure proposals and funding allocations beyond 2020/21 the MTFS only goes up to 2022/23, however the authority continues to plan around a timeline of up to 2025.																																				
	<u>MTFS Update October 2019</u>																																				
27.	A report providing an update on the Medium Term Financial Strategy for the period to 2022/23 was presented to Cabinet in October 2019.																																				
28.	The report set out proposals to balance the budget in 2020/21 and reduce the forecast 3-year future financial challenges from nearly £33M to £12M in total. The report is available at http://www.southampton.gov.uk/modernGov/documents/s42622/MTFS%20Update%20FINAL.pdf																																				
29.	A summary of the proposals put forward in October is provided in Table 1 below.																																				
	<p><u>Table 1 – General Fund Summary at October 2019</u></p> <table border="1"> <thead> <tr> <th></th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> </tr> </thead> <tbody> <tr> <td>Budget Gap - February 2019</td> <td>9.5</td> <td>11.8</td> <td>11.6</td> </tr> <tr> <td>Pressures and Mitigations</td> <td>6.2</td> <td>6.2</td> <td>8.5</td> </tr> <tr> <td>Developments/Investment</td> <td>3.8</td> <td>4.3</td> <td>5.9</td> </tr> <tr> <td>Savings Proposals</td> <td>-7.8</td> <td>-10.3</td> <td>-11.4</td> </tr> <tr> <td>Reduced business rate growth</td> <td>4.5</td> <td>4.5</td> <td>4.5</td> </tr> <tr> <td>Spending Round 2019/ future grant assumptions</td> <td>-9.9</td> <td>-7.0</td> <td>-7.0</td> </tr> <tr> <td>Use of reserves</td> <td>-6.3</td> <td>-4.8</td> <td>-4.8</td> </tr> <tr> <td>Amended Budget Gap – October 2019</td> <td>0.0</td> <td>4.7</td> <td>7.3</td> </tr> </tbody> </table>		2020/21 £M	2021/22 £M	2022/23 £M	Budget Gap - February 2019	9.5	11.8	11.6	Pressures and Mitigations	6.2	6.2	8.5	Developments/Investment	3.8	4.3	5.9	Savings Proposals	-7.8	-10.3	-11.4	Reduced business rate growth	4.5	4.5	4.5	Spending Round 2019/ future grant assumptions	-9.9	-7.0	-7.0	Use of reserves	-6.3	-4.8	-4.8	Amended Budget Gap – October 2019	0.0	4.7	7.3
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	<u>2019/20 Forecast Outturn</u>																																				
30.	The current forecast spending against the Council's net revenue General Fund budget of £189.6M is projected as an adverse position in portfolios (overspend), offset by a favourable variance on non-portfolio expenditure leaving an overall balanced position.																																				
31.	Nearly all of the portfolio overspend relates to the Aspiration, Children & Lifelong Learning portfolio, as reported in the monitoring report to the 25 th February 2020 Cabinet.																																				
32.	Further details on the forecast outturn position for 2019/20 are included within the report on the Financial Monitoring for the period to the end of December 2019 to be considered by Cabinet at its meeting on the 25 th February 2020.																																				

33.	The latest position for 2019/20 has been taken into consideration in updating the Medium Term Financial Strategy.
34.	<u>Updated Medium Term Forecast</u>
35.	Since the Medium Term Financial Strategy was presented to Cabinet in October 2019 it has been reviewed and updated in the light of funding notifications, the forecast outturn for 2019/20 and other known changes. The following sections provide an update on the Council's resources, together with updated budget proposals.
	<u>Council Resources</u>
	<u>Council Tax</u>
36.	The proposed budget makes no increase for the 'core' council tax level for 2020/21. However, an increase of just under 2% is proposed for 2020/21 in relation to the Adults Social Care levy, with the funds generated earmarked for use in the Adults Social Care budget. This takes the overall charge for the Southampton City Council element of the council tax from £1,535.52 to £1,566.18 for a Band D household. This is the equivalent of an increase of 59 pence per week. The full calculation is set out in Annex 1.2, which shows the council tax requirement for 2020/21 is £102.5M. Additional charges will be made by the Police and Fire authorities as set out in Annex 1.3. The Police and Crime Commissioner (PCC) confirmed their increase on 12th February, but the Fire Authority may not approve their increase until after 26 th February 2020. The budget report therefore requests a delegation of authority to the S151 Officer to implement any variation to the overall level of Council Tax arising from the final, formal notification of the Hampshire Fire and Rescue Authority precept and the Police and Crime Commissioner for Hampshire precept.
37.	The tax base has been calculated at 65,468 (Band D equivalents) for 2020/21, which represents an increase of 0.8% on the tax base applied in 2019/20 (and worth around £0.8M in additional council tax).
	<u>Business Rates</u>
38.	Under the Business Rates Retention Scheme the Council will retain 49% of the business rates collected locally, with 1% going to the Hampshire Fire & Rescue Authority and 50% to Central Government. The Council's estimated share of business rates income for 2020/21 is £51.9M.
39.	The business rates income estimates included in the MTFs assume some business rates growth, based on an assessment of new developments that are already in the pipeline. A cautious approach has been taken, with the following developments not yet factored in to growth estimates: <ul style="list-style-type: none"> • Bargate • Frobisher House • Mayflower Quarter (former Toys R Us site)
40.	<u>Business Rates Pilot</u> During 2019/20 Southampton City Council formed part of the Solent business rate pilot, along with Portsmouth City Council and the Isle of Wight Council. The benefit of participation in the pilot is a greater share of the growth in business rates is retained locally,

	75% rather than the normal 50%. The pilot comes to an end on 31 March 2020, but the estimated financial gain has been included in the budget at £1.7M in 2020/21 and £3.3M in 2021/22. This will only be confirmed at year end.																		
	<u>Government Grants</u>																		
41.	<u>Revenue Support Grant</u> Following years of reductions due to austerity measures, Revenue Support Grant (RSG) for 2020/21 has seen an inflationary uplift to £11.0M. However, this compares with an RSG allocation of £72.7M when the current funding system was first introduced in 2013/14.																		
42.	<u>New Homes Bonus</u> The Council's New Homes Bonus allocation for 2020/21 is £4.1M. The MTFs assumes that legacy payments for grant allocations in previous years from Government will continue, pending a consultation on a new approach to rewarding housing growth.																		
43.	The Council has been successful in its bid for Access Fund Extension and has been awarded a grant of £0.765M for 2020/21. The Cabinet is recommended to accept this award of external funding.																		
44.	Further details on government grants is provided in section 2.2.3 of the Medium Term Financial Strategy (Annex 1.1) and a schedule of key grants received by the Council is included at Annex 1.4.																		
45.	Chart 2 below shows how the Council's 2020/21 Net General Fund Budget of £190.8M is funded from council tax, business rates and government grants.																		
46.	<p><u>Chart 2 Funding of 2020/21 Net General Fund Budget</u></p> <table border="1"> <caption>Funding of Net General Fund Budget</caption> <thead> <tr> <th>Funding Source</th> <th>Estimated Amount</th> </tr> </thead> <tbody> <tr> <td>Council Tax</td> <td>£100.0M</td> </tr> <tr> <td>Business Rates</td> <td>£60.0M</td> </tr> <tr> <td>S31 Business Rates Grants</td> <td>£10.0M</td> </tr> <tr> <td>Revenue Support Grant</td> <td>£11.0M</td> </tr> <tr> <td>Top-Up Grant</td> <td>£2.0M</td> </tr> <tr> <td>New Homes Bonus</td> <td>£4.1M</td> </tr> <tr> <td>Other Non-Specific Government Grants</td> <td>£3.7M</td> </tr> <tr> <td>Total</td> <td>£190.8M</td> </tr> </tbody> </table>	Funding Source	Estimated Amount	Council Tax	£100.0M	Business Rates	£60.0M	S31 Business Rates Grants	£10.0M	Revenue Support Grant	£11.0M	Top-Up Grant	£2.0M	New Homes Bonus	£4.1M	Other Non-Specific Government Grants	£3.7M	Total	£190.8M
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	<u>Budget Pressures & Mitigations</u>																		
47.	The Medium Term Financial Strategy report to Cabinet in October 2019 set out the results of an exercise to rebase the budget. The overall impact was cost neutral in 2019/20, however additional cost pressures in future years were identified.																		

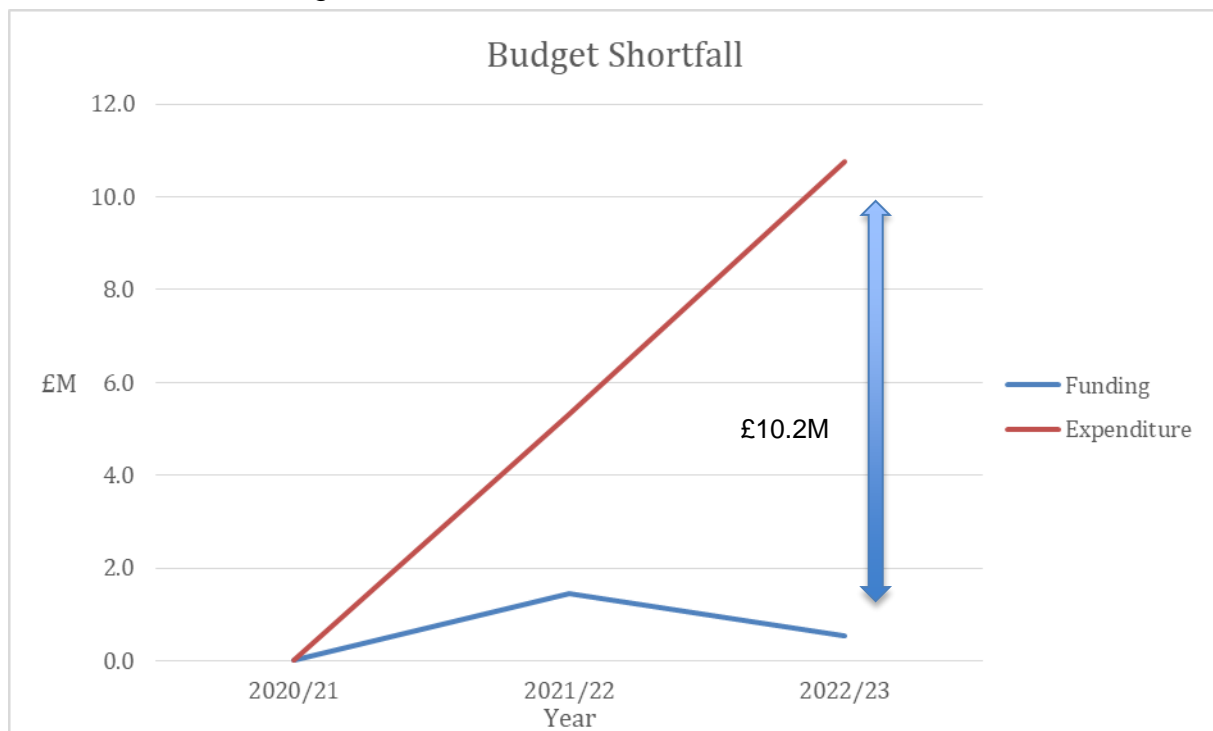
48.	Table 2 below sets out the net amount required to be added to the budget to meet projected expenditure pressures, including those identified through the rebasing exercise. Where budget is no longer needed for some activities this has been released to offset pressures elsewhere, hence the table shows budget reductions for some programmes.																																
49.	<p>Table 2 – Summary of Budget Pressures & Mitigations</p> <table border="1" data-bbox="220 409 1361 745"> <thead> <tr> <th data-bbox="220 409 906 483">Programme</th> <th data-bbox="914 409 1054 483">2020/21 £M</th> <th data-bbox="1062 409 1203 483">2021/22 £M</th> <th data-bbox="1211 409 1361 483">2022/23 £M</th> </tr> </thead> <tbody> <tr> <td data-bbox="220 488 906 521">Place Shaping</td> <td data-bbox="914 488 1054 521">(1.00)</td> <td data-bbox="1062 488 1203 521">(1.00)</td> <td data-bbox="1211 488 1361 521">(1.00)</td> </tr> <tr> <td data-bbox="220 526 906 560">Wellbeing</td> <td data-bbox="914 526 1054 560">10.22</td> <td data-bbox="1062 526 1203 560">10.12</td> <td data-bbox="1211 526 1361 560">12.02</td> </tr> <tr> <td data-bbox="220 564 906 598">Communities, Culture & Homes</td> <td data-bbox="914 564 1054 598">0.18</td> <td data-bbox="1062 564 1203 598">0.18</td> <td data-bbox="1211 564 1361 598">0.18</td> </tr> <tr> <td data-bbox="220 602 906 636">Green City</td> <td data-bbox="914 602 1054 636">(0.23)</td> <td data-bbox="1062 602 1203 636">(0.23)</td> <td data-bbox="1211 602 1361 636">(0.23)</td> </tr> <tr> <td data-bbox="220 640 906 674">Successful, Sustainable Business</td> <td data-bbox="914 640 1054 674">0.63</td> <td data-bbox="1062 640 1203 674">0.48</td> <td data-bbox="1211 640 1361 674">0.41</td> </tr> <tr> <td data-bbox="220 678 906 712">Centrally Held Budgets</td> <td data-bbox="914 678 1054 712">(2.59)</td> <td data-bbox="1062 678 1203 712">(2.25)</td> <td data-bbox="1211 678 1361 712">(1.56)</td> </tr> <tr> <td data-bbox="220 716 906 745">Total Pressures</td> <td data-bbox="914 716 1054 745">7.22</td> <td data-bbox="1062 716 1203 745">7.31</td> <td data-bbox="1211 716 1361 745">9.82</td> </tr> </tbody> </table>	Programme	2020/21 £M	2021/22 £M	2022/23 £M	Place Shaping	(1.00)	(1.00)	(1.00)	Wellbeing	10.22	10.12	12.02	Communities, Culture & Homes	0.18	0.18	0.18	Green City	(0.23)	(0.23)	(0.23)	Successful, Sustainable Business	0.63	0.48	0.41	Centrally Held Budgets	(2.59)	(2.25)	(1.56)	Total Pressures	7.22	7.31	9.82
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50.	<p>Wellbeing</p> <p>The majority of the pressures recognised for wellbeing relate to Adults Social Care. Pressures largely stem from increasing client numbers from a growing elderly population and rising contract costs.</p> <p>Pressures on the Children’s and Adults Social Care budget have been recognised during 2019/20 through the budget rebasing exercise. Provision for additional demand in future years has been made by provision of £6M in the 2020/21 budget covering social care budget pressures – see paragraph 63 below.</p>																																
51.	Details of the final budget pressures are included at Annex 1.5.																																
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52.	<p>Savings proposals totalling £7.8M for 2020/21, with £10.3M in 2021/22 and £11.4M in 2022/23 were published for consultation as part of the budget update to Cabinet in October 2019. Full details can be found in the appendix to that report here: http://www.southampton.gov.uk/modernGov/documents/s42630/Copy%20of%20Appendix%203%20Savings.pdf</p>																																
53.	<p>After ten years of austerity with public finances, it is increasingly clear that local councils will need to adapt their savings strategies to continue to balance their budgets. Whilst efficiency measures will continue to be pursued, such as staff restructures and more effective procurement, raising additional income and being innovative with services are increasingly important. Income generation measures are therefore a crucial component of covering budget shortfalls and work will continue in this area as a key focus for the council to generate resources to both address its budget pressures and invest in its services.</p>																																
54.	<p>Further work has been on-going to refine the savings proposals published in October 2019. Table 3 below gives a summary of the updated position, with details of the final savings proposals included at Annex 1.6.</p>																																

55.	<p>Table 3 – Summary of Savings Proposals</p> <table border="1" data-bbox="220 241 1361 584"> <thead> <tr> <th>Programme</th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> </tr> </thead> <tbody> <tr> <td>Place Shaping</td> <td>(0.04)</td> <td>(0.04)</td> <td>(0.04)</td> </tr> <tr> <td>Wellbeing</td> <td>(1.85)</td> <td>(3.25)</td> <td>(4.30)</td> </tr> <tr> <td>Communities, Culture & Homes</td> <td>(0.15)</td> <td>(0.15)</td> <td>(0.15)</td> </tr> <tr> <td>Green City</td> <td>0.00</td> <td>(0.01)</td> <td>(0.01)</td> </tr> <tr> <td>Successful, Sustainable Business</td> <td>(5.30)</td> <td>(6.07)</td> <td>(5.84)</td> </tr> <tr> <td>Centrally Held Budgets</td> <td>(0.27)</td> <td>(1.09)</td> <td>(1.09)</td> </tr> <tr> <td>Total Savings</td> <td>(7.61)</td> <td>(10.61)</td> <td>(11.42)</td> </tr> </tbody> </table> <p>The Property Investment Fund saving of £2.75M is shown net in the above table within Successful, Sustainable Business. The anticipated income from the proposal is £6.60M in 2020/21 and £9.97M thereafter, offset by capital financing costs of £3.85M in 2020/21 and £7.22M in future years.</p>	Programme	2020/21 £M	2021/22 £M	2022/23 £M	Place Shaping	(0.04)	(0.04)	(0.04)	Wellbeing	(1.85)	(3.25)	(4.30)	Communities, Culture & Homes	(0.15)	(0.15)	(0.15)	Green City	0.00	(0.01)	(0.01)	Successful, Sustainable Business	(5.30)	(6.07)	(5.84)	Centrally Held Budgets	(0.27)	(1.09)	(1.09)	Total Savings	(7.61)	(10.61)	(11.42)
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56.	<p>Initial investment proposals were published as part of the budget update to Cabinet in October 2019. Full details can be found in the appendix to that report here:</p> <p>http://www.southampton.gov.uk/modernGov/documents/s42627/Copy%20of%20Appendix%204%20investment.pdf</p>																																
57.	<p>Table 4 below gives a summary of the updated position, with details of the final investment proposals included at Annex 1.7.</p>																																
58.	<p>Table 4 – Summary of Investments</p> <table border="1" data-bbox="220 1153 1361 1496"> <thead> <tr> <th>Programme</th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> </tr> </thead> <tbody> <tr> <td>Place Shaping</td> <td>0.85</td> <td>1.26</td> <td>1.07</td> </tr> <tr> <td>Wellbeing</td> <td>0.42</td> <td>0.25</td> <td>0.18</td> </tr> <tr> <td>Communities, Culture & Homes</td> <td>0.76</td> <td>0.37</td> <td>0.48</td> </tr> <tr> <td>Green City</td> <td>0.72</td> <td>0.63</td> <td>0.72</td> </tr> <tr> <td>Successful, Sustainable Business</td> <td>1.36</td> <td>0.65</td> <td>0.48</td> </tr> <tr> <td>Centrally Held Budgets</td> <td>0.14</td> <td>1.35</td> <td>3.16</td> </tr> <tr> <td>Total Investments</td> <td>4.25</td> <td>4.51</td> <td>6.10</td> </tr> </tbody> </table>	Programme	2020/21 £M	2021/22 £M	2022/23 £M	Place Shaping	0.85	1.26	1.07	Wellbeing	0.42	0.25	0.18	Communities, Culture & Homes	0.76	0.37	0.48	Green City	0.72	0.63	0.72	Successful, Sustainable Business	1.36	0.65	0.48	Centrally Held Budgets	0.14	1.35	3.16	Total Investments	4.25	4.51	6.10
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59.	<p><u>Inflation</u></p> <p>The total amount allocated from the central inflationary pressures budget for 2020/21 is £4.4M. This comprises:</p> <ul style="list-style-type: none"> • £1.9M for pay awards (assumed at 2%) • £1.6M for increase in employer’s pension rate (offset by reduction in the past service deficit budget - see paragraph 60 below) • £0.9M for contracts, many of which are annually index linked to measures of inflation <p>Other expenditure areas receive no budgetary uplift and are expected to manage within the existing base budget allocation.</p>																																

60.	<p><u>Employer's Pension Costs</u></p> <p>Following the 2019 triennial revaluation of the Hampshire Local Government Pension Scheme employer's contributions have been reduced, releasing around £4.5M per annum for the next three financial years.</p>																			
	<p><u>Balances and Earmarked Reserves</u></p>																			
61.	<p>The current General Fund Balance of £10.1M is considered to be appropriate to cover for unforeseen events and financial risks not provided for elsewhere.</p>																			
62.	<p>A review of useable reserves has been undertaken as part of the budget planning process and an element of the uncommitted amount has been factored in to the MTFs to help offset budget shortfalls. Earmarked reserves (excluding schools' balances) are projected to reduce from £85.8M at the start of 2019/20 to £32.0M by the end of 2022/23. Further details are provided in section 2.4 of the Medium Term Financial Strategy (Annex 1.1).</p>																			
63.	<p>Increased numbers of children being looked after and the higher costs of placements are putting significant pressure on the children's services budget. Demand management strategies have been put in place to reduce costs over the medium term. To recognise these and other potential additional pressures across all social care, £6.0M has been added to the Social Care Demand Risk Reserve in each of the three years 2020/21 – 2022/23, which can be called upon if there is demonstrable need. This need will be based on the financial position at the year-end, as well as in-year as informed by the quarter 1 budget monitor scorecard and evidenced continuing pressure.</p>																			
64.	<p>Table 5 sets out the net use of reserves included within the budget proposals.</p>																			
65.	<p><u>Table 5 – Use of Reserves</u></p> <table border="1"> <thead> <tr> <th></th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> </tr> </thead> <tbody> <tr> <td>Additions to Social Care Demand Reserve</td> <td>6.00</td> <td>6.00</td> <td>6.00</td> </tr> <tr> <td>Use of reserves to meet budget shortfalls</td> <td>(7.41)</td> <td>(4.87)</td> <td>(4.80)</td> </tr> <tr> <td>Net contribution (from) / to reserves</td> <td>(1.41)</td> <td>1.13</td> <td>1.20</td> </tr> </tbody> </table>					2020/21 £M	2021/22 £M	2022/23 £M	Additions to Social Care Demand Reserve	6.00	6.00	6.00	Use of reserves to meet budget shortfalls	(7.41)	(4.87)	(4.80)	Net contribution (from) / to reserves	(1.41)	1.13	1.20
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66.	<p><u>Capital Asset Management</u></p>																			
67.	<p>Capital financing costs are met from the Capital Asset Management budget held centrally within the Council. Further details regarding capital financing assumptions are included in the Treasury Management Strategy and Prudential Limits report to Governance Committee on 10th February 2020.</p>																			
68.	<p>On 9th October 2019 the Public Works Loan Board (PWLb) increased their rates by 1% at one hour's notice. This means that any future borrowing for councils via the PWLB would be incurred at an additional 1% cost.</p>																			
69.	<p>This increase had no immediate impact on the budget plans put forward in the paper to Cabinet on 15th October 2019, or on the existing plans in the capital programme, as the capital financing costs of the proposals included in the draft budget submitted to Cabinet in October included prudent estimates. The increased rate has been taken into account for all future proposals requiring financing.</p>																			

70.	<p>The increase by PWLB has had the following impacts on proposals discussed and agreed already by the Council:</p> <ul style="list-style-type: none"> • Oaklands Housing Development: The changed of rate adds around £0.34M additional debt cost into the project, which when allocated across 30 years does not have a material impact on the value for money of the proposal. It will have an impact on the cost of the remaining 900 homes in the overall build target, which will need to be costed including the higher rate. • Toys R Us: Annual financing costs would increase by £0.11M. Financing costs of the project would remain below the estimated annual net occupational income at full occupancy. The cash value of the project return, including the estimated value of the asset after 35 years, reduced by some £4M. • Property Investment Fund: The net yield from a number of sample transactions for property on the market was calculated and included in the Cabinet/Council report. These have been re-estimated based on the new PWLB rates and it shows that the target level of £2.8M included as a net saving from an increase of £200M invested in property remains achievable. 																																																				
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73.	<p><u>Table 6 – Summary of Changes</u></p> <table border="1" data-bbox="220 1088 1361 1615"> <thead> <tr> <th></th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> </tr> </thead> <tbody> <tr> <td>Budget Gap – October 2019</td> <td>(0.08)</td> <td>4.72</td> <td>7.29</td> </tr> <tr> <td>Addition to reserves for social care demand</td> <td>6.00</td> <td>6.00</td> <td>6.00</td> </tr> <tr> <td>IT Strategy revenue costs</td> <td>0.46</td> <td>0.36</td> <td>0.36</td> </tr> <tr> <td>LGPS employer’s contribution saving</td> <td>(4.50)</td> <td>(4.50)</td> <td>(4.50)</td> </tr> <tr> <td>Feasibility costs necessary for capital works</td> <td>0.64</td> <td></td> <td></td> </tr> <tr> <td>Adjustment to capital financing estimates</td> <td>(0.19)</td> <td>0.65</td> <td>0.84</td> </tr> <tr> <td>Changes to investment in services (including clean city)*</td> <td>0.50</td> <td>0.29</td> <td>0.17</td> </tr> <tr> <td>New savings proposals</td> <td>(0.12)</td> <td>(0.12)</td> <td>(0.12)</td> </tr> <tr> <td>Changes to savings proposals</td> <td>0.34</td> <td>(0.18)</td> <td>0.08</td> </tr> <tr> <td>Funding changes</td> <td>(1.94)</td> <td>(3.28)</td> <td>0.10</td> </tr> <tr> <td>Further use of reserves</td> <td>(1.11)</td> <td>(0.07)</td> <td></td> </tr> <tr> <td>Amended Budget Gap – February 2020</td> <td>0.00</td> <td>3.87</td> <td>10.22</td> </tr> </tbody> </table> <p>*Includes Mayflower Quarter and Outdoor Sports Centre investments met from reserves</p>		2020/21 £M	2021/22 £M	2022/23 £M	Budget Gap – October 2019	(0.08)	4.72	7.29	Addition to reserves for social care demand	6.00	6.00	6.00	IT Strategy revenue costs	0.46	0.36	0.36	LGPS employer’s contribution saving	(4.50)	(4.50)	(4.50)	Feasibility costs necessary for capital works	0.64			Adjustment to capital financing estimates	(0.19)	0.65	0.84	Changes to investment in services (including clean city)*	0.50	0.29	0.17	New savings proposals	(0.12)	(0.12)	(0.12)	Changes to savings proposals	0.34	(0.18)	0.08	Funding changes	(1.94)	(3.28)	0.10	Further use of reserves	(1.11)	(0.07)		Amended Budget Gap – February 2020	0.00	3.87	10.22
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75.	<p><u>Table 7 – Forecast Budget Shortfall</u></p> <table border="1" data-bbox="220 1805 1345 2029"> <thead> <tr> <th></th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> </tr> </thead> <tbody> <tr> <td>Net Expenditure</td> <td>190.82</td> <td>196.14</td> <td>201.57</td> </tr> <tr> <td>Funding</td> <td>(190.82)</td> <td>(192.27)</td> <td>(191.35)</td> </tr> <tr> <td>Forecast Budget Shortfall</td> <td>0.00</td> <td>3.87</td> <td>10.22</td> </tr> </tbody> </table>		2020/21 £M	2021/22 £M	2022/23 £M	Net Expenditure	190.82	196.14	201.57	Funding	(190.82)	(192.27)	(191.35)	Forecast Budget Shortfall	0.00	3.87	10.22																																				
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76. Chart 3 Forecast Budget Shortfall



77. Annex 1.1(a) to the Medium Term Financial Strategy (Annex 1.1) sets out the 2020/21 budget and forecasts for 2021/22 and 2022/23 by programme area, centrally held budgets and sources of funding.

THE COLLECTION FUND

78. Financial monitoring for the period to the end of December 2019 shows a forecast overall surplus to carry forward on the Collection Fund of £0.2M, comprising a £0.3M deficit for Council Tax and a £0.5M surplus for Non Domestic Rates.

79. Further details are included within the Financial Monitoring for the period to the end of December 2019 report to be considered by Cabinet at its meeting on the 25th February 2020.

80. Southampton City Council's £0.7M share of the forecast carried forward surplus has been taken into account in the proposed 2020/21 General Revenue Fund Budget.

Annexes

1.1	Medium Term Financial Strategy
1.2	2020/21 Council Tax Calculation
1.3	2020/21 Council Tax Collection Fund Estimates
1.4	Government Grants
1.5	Budget Pressures
1.6	Savings Proposals
1.7	Investments