

DECISION-MAKER:	CABINET		
SUBJECT:	THE REVISED MEDIUM TERM FINANCIAL STRATEGY 2017/18 to 2020/21 INCLUDING THE GENERAL FUND REVENUE BUDGET		
DATE OF DECISION:	15 NOVEMBER 2016		
REPORT OF:	CABINET MEMBER FOR FINANCE		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY
N/A
EXECUTIVE SUMMARY
<p>This report details the draft revised Medium Term Financial Strategy (MTFS) for the period 2017/18 to 2020/21. The objective of this Strategy is to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the Council's priority outcomes.</p> <p>The Strategy is based around 6 key aims:</p> <ul style="list-style-type: none"> • 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. <p>This report outlines the Cabinet's draft budget proposals for this period to deliver priority outcomes for residents in a financially sustainable way. For the first time the Council is aiming for a two year budget hence the report consists of detailed proposals for 2017/18 and 2018/19 totalling £31.6M. The MTFS also includes 'emerging' ideas for 2019/20.</p> <p>In moving forward with this we have focused on the following areas to target savings:</p> <ul style="list-style-type: none"> • Business as usual operational efficiencies; • Procurement savings – third party spend (General Fund) accounts for 65% of our total expenditure;

- Digital programme to change, transform and improve how we deliver services both within the Council and to citizens;
- Service deliver changes including organisational redesign, new delivery models, shared services, stopping, reducing and changing services.

These draft proposals will be used as the basis for consultation with a range of stakeholders. Analysis on consultation feedback will be considered by the Cabinet before they finalise their budget proposals that will be recommended to Council on 15 February 2017 when it will set the budget.

Since 2011/12 the Council has faced year on year reductions in grant funding from Government to support the General Fund Revenue Account. This source of funding is expected to come to an end in 2019/20. At this point the Government is proposing that the Council will retain the business rates collected within the city, however additional responsibilities will also be allocated to local government at this time. Therefore it is important we focus on facilitating economic growth and developing our approach to financial management that prepares the Council for a new way of budgeting from 2020/21. At the same time we face the uncertainties of Brexit and its impact on the national and local economy; the need to respond to changing behaviours in reducing demand; building resilient communities; accessing our services; taking steps to reduce our costs by managing services in more business like ways and working with our partners to improve outcomes for residents.

To date the Council has saved £92.4M over the last 5 years but to be sustainable in the future the Council will need to continue to stop, change, reduce and in some cases, develop new services. This report outlines a different approach to financial management being developed by the Council with the aim of aligning delivery of the Executive's key outcomes (described in the Council Strategy 2016-20) with affordability. This is to help the Council to invest its reducing resources in activities that have the greatest impact on the delivery of priority outcomes. The Council wants to achieve better outcomes for all residents by improving quality and performance, managing demand of its high cost services and becoming more commercial. Consequently financial plans have been drawn up on the basis of the four main outcomes and will support the commissioning and procuring of services more cost effectively to enable the Council to become a modern and sustainable organisation.

The budget proposals in this report include significant options for reducing the demand for high cost social care services for vulnerable children, young people and adults; further integration of services with health partners to provide better services at a lower cost; transformation of children's and adult's social care services, identification of different ways of delivering vital services and making savings in staff and process costs through effective use of digital technology. The Medium Term Financial Model assumes a Council Tax increase of 1.99% and 2% for the Adult Social Care Levy.

The main points in this report are:

- The MTFM and associated budget proposals seek to close the funding gap by 2018/19 of which nearly £6M will be funded by an increase in the volume of business rates and council tax, reflecting the continued projections of economic growth in the city.
- Cabinet wish to seek feedback on their draft proposals and their potential impact so that they can consider them when finalising the budget and setting the Council tax at Council in February 2017.

- The proposals reflect a commitment to support the most vulnerable, through different approaches whilst moving to digital access for information and to many of our services.
- Where possible proposals have focussed on reducing costs in operations (initially focussing on the back office) by driving efficiencies in processes and ways of working by using digital technology, requiring fewer staff in the future.
- A review of all third party expenditure has taken place which represents 65% of the Council's overall spend.
- Proposals include the continuation of the redesign of the Council through ongoing restructures across the organisation over the coming months. Whilst Cabinet members are committed to avoiding compulsory redundancies, they recognise this could be more and more challenging to achieve in the future and therefore will be offering voluntary solutions to staff as a way of reducing its workforce.
- The Council will continue to explore further integration of services both internally and with partners that will generate income, reduce costs and in many cases, will improve outcomes.
- The focus is on safely reducing costs in 2 specific areas: children's social care, by reducing the number of looked after children and in adult social care by providing care and support in different ways and to ensure individuals needs are regularly reviewed.
- Alternative ways of delivering key services are considered that will help the Council to reduce costs and generate income are also being explored
- The provision of some services are proposed to be stopped alongside introducing or increasing charges for Council services where fees are commensurate with the true cost of service provision and are out of line with charges for similar services provided by other authorities or the private sector
- Continued investment in roads and pavement is proposed which residents have identified as high priority.
- The Medium Term Financial Strategy has been reviewed and assumptions updated to reflect the Council's new outcomes and has been extended to include the financial year 2020/21.

The MTFS includes high level assumptions with regards to the Housing Revenue Account as there is no requirement for further savings to be made for 2017/18, having had a two year budget agreed at February 2016 Council meeting.

The MTFS also includes the impact of the latest capital programme and Capital Strategy. This will be further updated once the allocation of capital resources to Council Outcomes and Executive Commitments has been reviewed by the Council Capital Board.

The MTFS also includes the approved Efficiency Plan for the Council, enabling the Government's offer of a four year minimum funding guarantee to be accepted.

RECOMMENDATIONS:

	(i)	To note the revised Medium Term Financial Strategy 2017/18 to 2020/21 (attached as Appendix 2 - Summary and Appendix 4 – Full) is based on the best estimate at this time and will need to be kept under review.
	(ii)	To note the aims and objectives of the Medium Term Financial Strategy which will be presented to Council for approval in February 2017.

	(iii)	To note that the report contains draft proposals for reducing cost and generating income that amount to £21.3M in 2017/18 increasing to £31.6M in 2018/19.
	(iv)	To note that formal budget consultation will begin on 16 November 2016 for many proposals but that other proposals may be subject to different timescales when details are finalised. The proposals and methodology of this consultation are detailed in Appendix 6.
	(v)	To note that the Executive's initial budget proposals will impact on staffing and that consultation will be undertaken in line with legislation and the Councils agreed processes before proposals are implemented.
	(vi)	To note that the Executive's budget proposals for consultation are based on the assumptions detailed within the MTFs and that this includes a Council Tax increase of 3.99 %, 1.99% under general powers to increase Council Tax without a referendum and 2.00% Social Care Precept.
	(vii)	To delegate authority to the Service Director – Finance & Commercialisation (S151 Officer), following consultation with the Cabinet Member for Finance, to do anything necessary to give effect to the proposals contained in this report.

REASONS FOR REPORT RECOMMENDATIONS

1.	The Council is a large organisation managing the delivery of a vast range of businesses either directly or through/with others. Its core purpose is to improve the quality of life for residents and effective financial management is key to this. It is important that Members are aware of the major financial challenges and opportunities and that they make informed decisions. The Council regularly revises its Medium Term Financial Strategy (MTFS) so that the financial position is clear for budget proposals to be drawn up for the forthcoming year. However in light of the proposed changes to funding from Central Government by 2019/20, it is important for the Council to set out its budget proposals and emerging ideas for savings in the context of the MTFS over a four year period 2017/18 to 2020/21.
2.	The Cabinet wants to channel the decreasing resources towards agreed priority outcomes and to do this properly and transparently requires a different approach through focusing on Outcomes Based Planning and Budgeting (OBPB).
3.	Many of the proposals will have some impact on services users, residents, businesses, partners and staff and therefore it is important for the Council to start consultation with a range of stakeholders before presenting final proposals to Council in February 2017.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

4.	Alternative options for revenue spending and MTFS assumptions form an integral part of the development of the overall MTFS that will be considered at the Council budget setting meeting on 15 February 2017. The current set of assumptions contained within this report will be reviewed on a regular basis but represent the most up to date information available at this time.
5.	The proposals presented in this report represent the Executive's draft budget for the period 2017/18 – 2020/21. Of these, many proposals for 2017/18 and 2018/19 are ready for consultation. The Cabinet have considered and rejected some proposals put forward by officers as they were not considered to align with the Executive Commitment. In addition there are a number of variables and alternative options that could be implemented as part of the budget.

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 are currently considered by the Council's Capital Board in order to ensure the most appropriate use of capital resources in meeting the Council's desired outcomes and the Executive commitments. A Capital Programme Update report is included elsewhere on the agenda, and the latest position is included in the MTF5 Model.

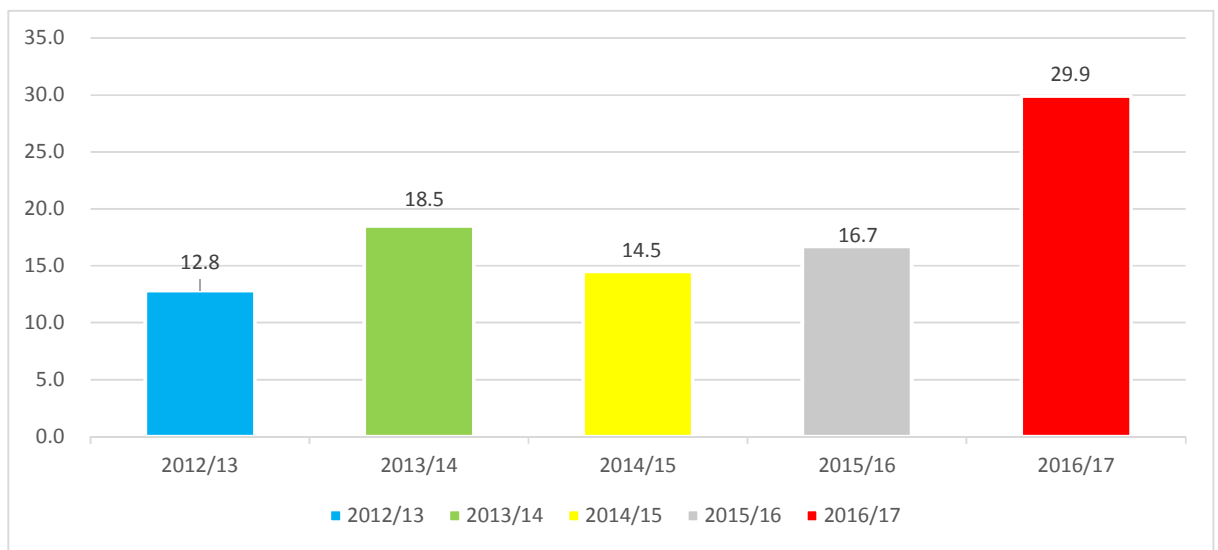
DETAIL (Including consultation carried out)

BACKGROUND

7. 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. Under current Government central funding proposals, the intention is to radically change the way local authorities are funded by moving to full business rate retention and phasing out the Revenue Support Grant by 2020. Alongside this there will 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.

8. Therefore it is vitally important for the Council to focus on facilitating economic growth and developing the approach for financial management that prepares for a new way of funding services from 2020/21. At the same time we face the uncertainties of Brexit and its impact on the City and the Council; the need to respond to changing behaviours in reducing demand; building resilient communities; accessing our services; taking steps to reduce costs by managing services in more business like ways; and working with partners to improve outcomes for residents.

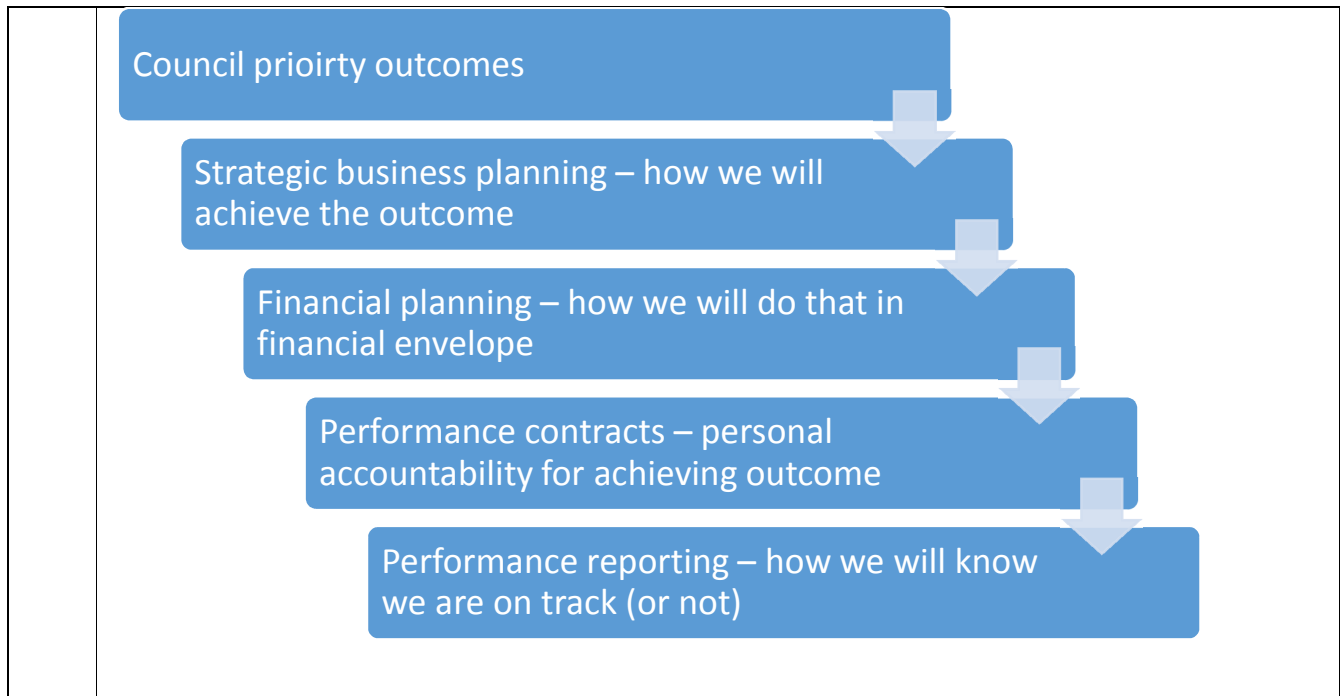
9. Over the last 5 years the Council has approved savings of £92.4M but to be sustainable in the future will require us to continue to stop, change, reduce and in some cases, develop new services.



10. This report outlines a different approach to financial management being developed by the Council with the aim of aligning delivery of the Executive's key outcomes (described in the Council Strategy 2016-20) with affordability. This is 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

	<p>improving quality and performance, managing demand of its high cost services and becoming more commercial. Therefore financial plans have been 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.</p>																																				
11.	<p>The Council's aims to make a difference and in doing so, has agreed its Council Strategy in September 2016 on the basis of the following priorities which were informed by feedback from residents:</p> <ul style="list-style-type: none"> • Southampton is a city with strong and sustainable economic growth; • Children and young people in Southampton get a good start in life; • People in Southampton live safe, healthy, independent lives; and • Southampton is a modern, attractive city where people are proud to live and work. 																																				
12.	<p>The external changes that can have a major impact on how we change and transform in the future include proposals for Devolution (the Solent Deal); further integration with Health; changes in the role of councils in relation to Education; impact of Brexit on the national and local economy and on local people as well as indirectly, on the council's finances. However, we also have to continue to change as an organisation to become modern, agile and sustainable with have a high performing workforce to deliver these outcomes within reducing resources.</p>																																				
13.	<p>Local government has had to change significantly in response to ongoing changes in the city's profile, trends in customer behaviour driver by technology, national and local policies and the austerity challenges. For us this is accompanied by ongoing challenges in the shape of rising demand in adults and children's social care. The chart below shows how the government funding to the Council has reduced and the projection is that by 2020 the Government is expecting councils to become financially viable through business rates which will replace government grants as our main source of income. In response, the Council has approved savings of £92.4M over the same period, while making every effort to protect front line services where possible.</p>																																				
	<table border="1"> <caption>Government Funding to the Council (£M)</caption> <thead> <tr> <th>Financial Year</th> <th>RSG</th> <th>New Home Bonus</th> <th>Improved Better Care Fund</th> <th>Non Specific Grants</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>2015/16</td> <td>45</td> <td>5</td> <td>0</td> <td>5</td> <td>55</td> </tr> <tr> <td>2016/17</td> <td>35</td> <td>5</td> <td>0</td> <td>3</td> <td>43</td> </tr> <tr> <td>2017/18</td> <td>25</td> <td>5</td> <td>0</td> <td>3</td> <td>33</td> </tr> <tr> <td>2018/19</td> <td>18</td> <td>5</td> <td>0</td> <td>3</td> <td>26</td> </tr> <tr> <td>2019/20</td> <td>12</td> <td>5</td> <td>0</td> <td>3</td> <td>20</td> </tr> </tbody> </table>	Financial Year	RSG	New Home Bonus	Improved Better Care Fund	Non Specific Grants	Total	2015/16	45	5	0	5	55	2016/17	35	5	0	3	43	2017/18	25	5	0	3	33	2018/19	18	5	0	3	26	2019/20	12	5	0	3	20
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14.	<p>In this context it is vital that as an organisation we plan for the next four years rather than just one year, which is what we have done to date. Therefore it is important to see the draft budget proposals as part of our revised MTFs since by the end of 2019/20, we must</p>																																				

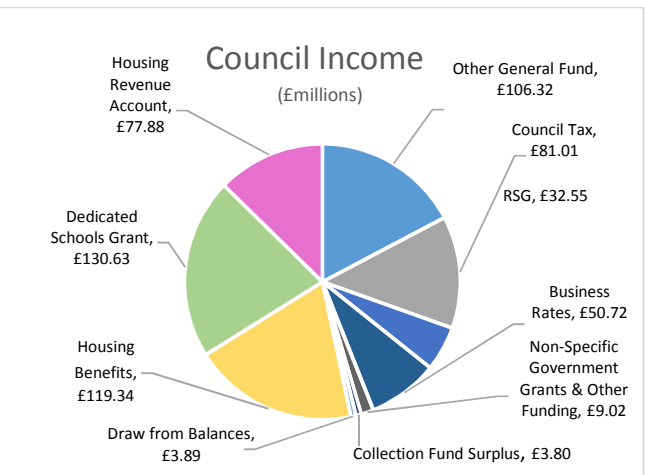
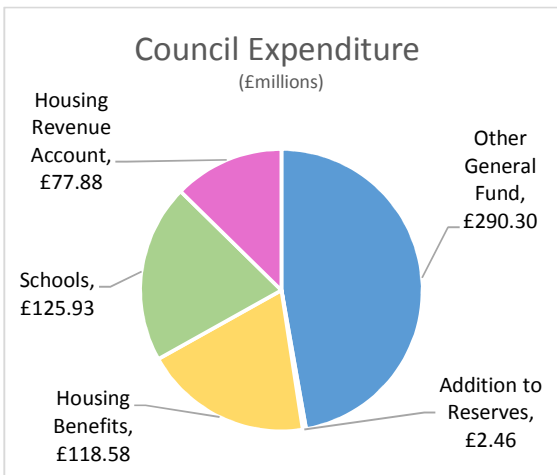
	assume that the Council will have lost virtually a 100% of Revenue Support Grant (RSG). This means we will need to be self-sustaining despite major pressures within social care and the wider economic uncertainties which impact on our investment plans.
15.	The budget proposals in this report include significant options for reducing the demand for high cost social care services for vulnerable children, young people and adults; further integration of services with health partners to provide better services at a lower cost; transformation of children's and adult's social care services, identification of different ways of delivering vital services and making savings in staff and process costs through effective use of digital technology.
16.	The proposals seek to increase Council Tax by 3.99% which (based on 2016/17) represents £1.01 per week for residents in a Band D property but will help the Council to continue to deliver services that matter most to residents.
	OUTCOMES BASED PLANNING AND BUDGETING (OBPB)
17.	OBPB is a method of budgeting in which funds are allocated according to a set of predefined outcomes or priorities. This model often is part of a more commissioning-based approach to service delivery. This approach is being developed and is expected to continue to be embedded over the next budget cycle so that Members can genuinely reshape and re-channel resources between the top outcomes and within each of the outcomes. The approach that has been undertaken with joint strategic working between Finance and Strategy so that there is a genuine alignment between resource allocation and outcomes and that decisions are increasingly based on evidence.
18.	The focus of OBPB is to determine what outcomes are being achieved from services provided and whether they are beneficial and make a difference to residents, customers and businesses. As this is a new approach to the Council's budget setting process, we acknowledge that there will be a period of transition towards a full OBPB process. In the first couple of years we will operate a hybrid approach of OBPB and identifying a list of savings proposals to identify ways to meet the budget gap with a full OBPB in place by 2018/19. Given the significant change to the budget process and the fact that many elements of the transformation programme are currently underway, it has not been possible to identify all savings for 2017/18 and 2018/19 via a pure OBPB process and some savings are more traditional operational savings.
19.	Outcomes are the end result – the 'why' we are doing an activity, rather than the 'what' of the activity (or output) itself. Planning and budgeting for outcomes means we focus on what we are trying to achieve, and the impacts on citizens and stakeholders, rather than products, systems or processes. This means that we move away from annual, salami sliced budgeting that is separate to strategy development and planning to an integrated, single process that focuses on outcomes, for a longer time frame. It also enables the Council to directly link its priorities to its resource allocation.



20. Appendix 1 details the outcomes, priorities and Executives commitments agreed by the Council in September, with the individual outcome plans attached at Appendix 3.

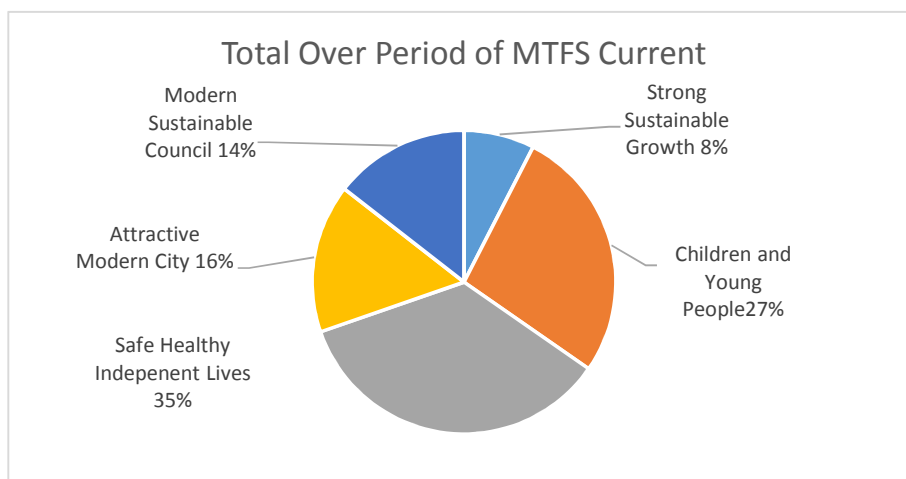
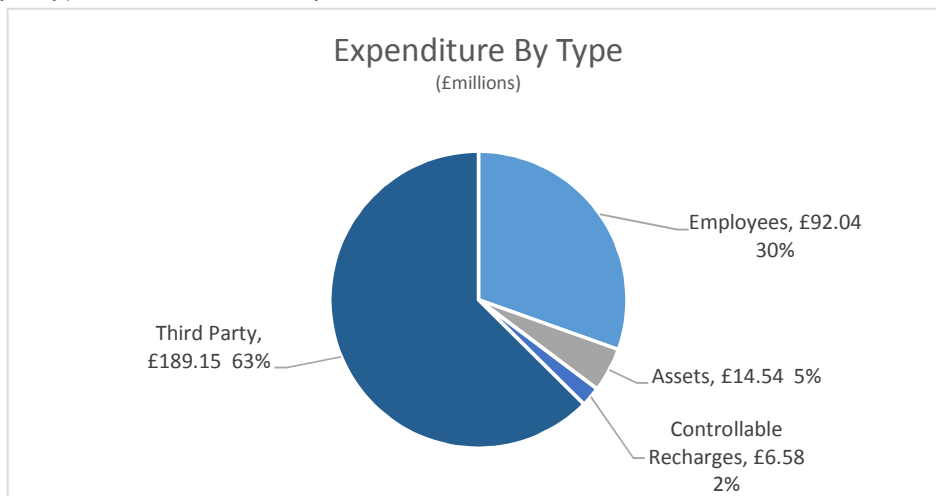
MEDIUM TERM FINANCIAL STRATEGY AND MODEL

21. The Council currently spends £615M delivering services and funds this from income from Central Government Grants, Council Tax, Business Rates, Rents, and other Fees and Charges. The pie chart shows four areas of expenditure: two are passed through directly to schools and for benefit payments. The Council needs to include 2 separate plans for the remaining two areas as one relates to ring fenced expenditure on Housing (within the Housing Revenue Account) of £78M and the other (General Fund) of £293M can be used to deliver the Council’s outcomes and priorities. In order to meet the financial challenges and service pressures we face, we have to save £42.3M from the General Fund budget by 2019/20 to be sustainable – this is a reduction of 15% on the total General Fund budget.



22.	<p>The revised MTFS is a level 1 strategy for the Council and is attached at Appendix 2 (plan on a page) and Appendix 4 (in full). This strategy sits alongside the Workforce Strategy approved in September 2016 and the Customer Strategy. Supporting all three key strategies is our transformation programme which is driving significant changes by facilitating the use of digital technology to improve process and productivity to reduce cost; exploring alternative delivery models; reducing third party expenditure through better procurement; vastly improving our expertise in managing programmes and projects and making the Council more commercial :</p> <div data-bbox="581 478 1104 898" data-label="Diagram"> <p>The diagram illustrates the Council Strategy as a central element supported by three other strategies. At the top is a blue rectangular box labeled 'Council Strategy'. Below it are three overlapping circles: 'Customer Strategy' at the top, 'Medium Term Financial Strategy' on the left, and 'Workforce Strategy' on the right. The circles overlap in the center, indicating their interconnected nature.</p> </div>
23.	<p>The objective of the Council’s revised 4 year 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 priority outcomes.</p>
24.	<p>There are 6 key aims of the Strategy:</p> <ul style="list-style-type: none"> • 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 • To ensure that the Council’s long term financial health and viability remain sound.
25.	<p>The MTFS focuses on determining the financial position for the period up to and including 2020/21 and takes into account major issues affecting the Council’s finances, including international, national and regional economic influences as well as local factors and priorities. It identifies risks and looks to mitigate those risks through provisions within reserves and balances to ensure the council has adequate resources to cover the uncertainty and risk. It provides the framework and assumptions for developing the overall budget, taking into account any agreed, unavoidable service pressures. The MTFS recognises the key role that financial resources play in the future delivery of services, and enabling the effective planning, management and delivery of those services. The MTFS is therefore key to the effective delivery of the Council’s overall aims of achieving better outcomes for residents in a financially sustainable ways.</p>

26. The Council's current spend and how it is allocated across the main outcomes as well as across the main area of expenditure (assets, controllable recharges, employees and third party) are shown in the pie charts below:



27. In moving forward we have focused on the following areas to target savings:

- Business as usual operational efficiencies provided (current level of service provision unchanged but with efficiencies identified);
- Procurement savings – third party spend (general fund) accounts for 63% of our total expenditure;
- Digital programme to change, transform and improve how we deliver services both within the council and to citizens; and
- Service deliver changes including redesign, new delivery models, shared services, stopping, reducing and changing services.

28. The revised MTFS takes into account the:

- Current forecast outturn position for 2016/17 which currently projects overspends in key service areas primarily children and adult social care. This is currently forecast at £3.5M by March 2017 and there are 10 actions plans being implemented to bring these budgets under control so that the required savings are found within this financial year.
- Future demand pressures around social care which continue to be a challenge and work is underway to address this with support from the transformation programme;

	<ul style="list-style-type: none"> • Current levels of government funding which continue to be on a downward trajectory combined with uncertainty over future EU funding; • Pay and inflation assumptions that may have to be reviewed in light of the impact of Brexit on the economy and inflation. 																									
29.	<p>Based on the above strategy the forecast financial position for reducing the budget envelopes for all outcome plans over the 4 years to 2020/21 is set out in Table 1 below. The projected funding gap of £42.3M over the period was reported in the report to Council in February 2016.</p> <p><u>Table 1 Gap in funding</u></p> <table border="1"> <thead> <tr> <th></th> <th>2017/18 £M</th> <th>2018/19 £M</th> <th>2019/20 £M</th> <th>2020/21 £M</th> </tr> </thead> <tbody> <tr> <td>Net Revenue Expenditure</td> <td>190.4</td> <td>192.4</td> <td>200.4</td> <td>200.4</td> </tr> <tr> <td>Funding Available</td> <td>(165.8)</td> <td>(161.1)</td> <td>(158.1)</td> <td>(158.1)</td> </tr> <tr> <td>Net Saving Requirement</td> <td>24.6</td> <td>31.3</td> <td>42.3</td> <td>42.3</td> </tr> <tr> <td>Annual Saving Requirement</td> <td>24.6</td> <td>6.7</td> <td>11.0</td> <td>0.0</td> </tr> </tbody> </table>		2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	Net Revenue Expenditure	190.4	192.4	200.4	200.4	Funding Available	(165.8)	(161.1)	(158.1)	(158.1)	Net Saving Requirement	24.6	31.3	42.3	42.3	Annual Saving Requirement	24.6	6.7	11.0	0.0
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	ISSUES THAT HAVE BEEN CONSIDERED																									
30.	<p>The MTFS has been reviewed to take into account the following:</p> <ul style="list-style-type: none"> • The current forecast outturn position for 2016/17 including potential ongoing non achievement of approved savings; • A review of pressures facing the Council such as further demographic and demand pressures, particularly in relation to social care; • Impact of the Triannual Pension Fund revaluation on both employer pension contributions and past service contributions; • A review of the phasing of transformation programme savings; • Additional savings that may be achievable from both the Procurement and Digital guarantees from the renegotiation of the Capita contract; and • A review of base budget assumptions such as pay and inflation assumptions. 																									

31.

Table 2 below identifies the changes to the Medium Term Financial Strategy Model:

	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M
Original Savings Requirement	24.6	31.3	42.3	42.3
Pressures				
Shortfall on Phase 2 Operating Model Approved Saving Proposal	2.0	2.0	2.0	2.0
Children's Social Care Pressures Looked after Children	1.4	0.7	0.1	0.1
Phasing change of Children's agency staff saving	0.5	0.2	0.0	0.0
Non achievement of previously approved savings proposals (Adult Social Care)	0.8	0.8	0.8	0.8
Unaccompanied asylum seeking children	0.5	0.5	0.5	0.5
Allocation for Additional Demand on Universal Services due to increased number of new businesses and housing developments in the City.	0.3	0.3	0.3	0.3
Capita Reset – realignment of phasing of related saving.	2.8	1.1	0.0	(1.3)
Non achievement of previously approved savings (Business Operations and Digital)	0.5	0.5	0.5	0.5
Changes in Employer Pension Contributions	0.6	1.2	1.8	1.8
MTFS Amendments				
Reduction in centrally held allocations	(4.7)	(4.7)	(3.1)	(1.8)
Increase in Business Rates and Council Tax	(2.3)	(2.3)	(2.3)	(2.3)
Collection Fund Surplus 2015/16	(1.8)	0.0	0.0	0.0
Minimum Revenue Provision alternative funding source	(4.0)			
Amended Savings Requirement	21.3	31.6	42.9	42.9
Savings proposals requiring approval at November Cabinet	(21.3)	(31.6)	(36.0)	(36.0)
Remaining Savings Requirement	0.0	0.0	6.9	6.9

EXPLANATION OF ADJUSTMENTS TO THE REVISED MTFS	
	<u>Pressures</u>
32.	<ul style="list-style-type: none"> • <u>Phase 2 Operating Model</u> On reflection of the management capacity required to deliver the transformation change required the redesign of the second phase of the operating model did not produce the level of savings expected. • <u>Childrens Social Care – Looked After Children</u> The previously published MTFS included an allocation of pressures to childrens services for the increase in number and placement cost of Looked After Children. In allocating this pressure plans were made to reduce the pressure in future years which the MTFS took account of. The delivery of these plans has slipped therefore this is now reflected in current MTFS. • <u>Childrens Social Care phasing change of Agency Staff Saving</u> The number of agency staff required reflects the number of looked after children, so this has been rephased in line with the above. • Non Achievement of previously agreed saving (Adult Social Services). • <u>Unaccompanied Asylum Seeking Children</u> A provision has been put aside in expectation of receiving an allocation of children. • Additional Pressures for demand led services such as waste services due to increased number of new businesses and housing developments in the City. • <u>Capita Reset</u> Original saving profile was based on an assumption that the contract would be terminated. The result of implementing a reset of the contract is a change in the profile of the savings achieved. Over the life of the contract the assumed savings are expected to be more beneficial than termination. The expected level of savings include a number of assumptions re costs that have not yet been confirmed, particularly in respect of Pension implications. • Non Achievement of Digital and Business Operation staffing restructure savings. • <u>Changes in Employer Pension Contributions</u> The triannual actuarial review has now been undertaken and initial principles have been fed into the medium term financial forecast.
	<u>MTFS Adjustments</u>
33.	<ul style="list-style-type: none"> • <u>Reduction in Centrally Held Allocations</u> Held centrally are a number of allocations for inflation, increments, pension changes, redundancy and interest rate rises. This have been reviewed and due to the low level of inflation and interest over the past year some of this allocation has been released.
	<u>Funding Adjustments</u>
34.	<ul style="list-style-type: none"> • <u>Business Rates, Council Tax and the Collection Fund</u> In year assumed increase in Collection Fund Surplus which will be declared in 2016/17 and can therefore be utilised in 2017/18. • <u>2015/16 Collection Fund Surplus</u> Additional year end surplus on the Collection Fund over that assumed when setting the 2015/16 budget. This becomes available for allocation in 2017/18.
<u>PROPOSALS FOR ACHIEVING SMALLER BUDGET ENVELOPES FOR EACH OUTCOME PLAN BY THE END OF 2020/21</u>	

35.	In developing proposals, it has been difficult to avoid impacting on front line services because year on year reductions over the last few years have left very little flexibility. Despite this every effort has been made to improve customer experiences and in many cases this will be through different ways of accessing services and greater self-sufficiency and independence on part of residents. The Outcome Plans for the priority outcomes as well as the Outcome Plan for the Council to become a more modern, sustainable organisation are attached at Appendix 1. These provide a brief summary of the Outcome with a financial overview, performance analysis of key challenges and the main proposals to achieve the budget envelope by 2019/20.	
36.	For the first time, proposals have been identified for a three year period with greater details for the first 2 years (2017/18 & 2018/19) and emerging ideas for year 3 (2019/20). The proposals comprise the following:	
	Digital Savings	4%
	Business As Usual Savings	25%
	Service Delivery and Redesign Proposals	71%
<u>PUBLIC HEALTH GRANT REDUCTION</u>		
	The Public health grant, introduced in April 2013, has been the subject to a formula allocation method as well as an overall reduction in resources. The Assumed grant allocations going forward are: <ul style="list-style-type: none"> • 2016/17 £17.86M (confirmed) • 2017/18 £17.42M • 2018/19 £17.0M 	
	Appendix 5 shows the current and proposed allocation of the Public Health Grant, to reflect the reduced resources.	
<u>RESERVES AND BALANCES</u>		
37.	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>	
38.	The Council has a number of earmarked reserves that have been set aside for specific reasons. These reserves can be split into two categories: <ol style="list-style-type: none"> a. Those required to be kept by statute or accounting guidance. For example revenue grants reserve, School Balances. These reserves can only be utilised for the purpose for which they have been set aside. b. Those set aside for a future event that has a high probability of occurring. For example Transformation Reserve. 	
39.	The financial risks facing the Council in the medium term are assessed within the MTFs. This includes assessing the risk of continuing reductions in Central Government Funding. The subsequent budget shortfalls that the Council then faces and overall local and national economic factors which can affect the financial stability of the council.	
40.	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 2015/16 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>
41.	The General Fund Balance is forecast to be £8.9M at the end of 2016/17 providing the current year financial overspend is addressed, if not this balance will reduce to £5.4M. The required level of balance is determined by assessing the level of risk the Council faces. This is currently assessed at £5.5M.
42.	Obviously when the Council is facing significant cuts in funding, increasing demand alongside a major transformation programme the level of risk is heightened. The assessed minimum balance will be reviewed again for the MTFS update in February 2017, taking into consideration both risk and affordability.
	<u>BUDGET CONSULTATION</u>
43.	The draft budget proposals that have been put forward have been subject to consultation with the Council's Management Team (CMT) and the Cabinet. The Cabinet will undertake a public consultation process on their draft budget proposals following the consideration of this report. The Leader and the Cabinet are keen to listen to any new ideas on how to reduce costs, to receive feedback on the proposals and on any potential impact of the proposals. This is to finalise the Executive's budget which will be recommended to Full Council in February 2017.
44.	The aims of the public consultation are to: <ul style="list-style-type: none"> 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 draft 2017/18 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.
45.	The process used for public consultation is improved each year based on feedback from previous consultations. As in previous years a consultation questionnaire (paper and online) will be supported by information that provides background to the budget, key information in themed information sheets and a set of frequently asked questions. Public consultation will be undertaken with service users or stakeholder organisations affected by the proposals as well as with residents at a wider level, to ensure all options have been considered. Throughout the consultation there will be regular communications via a range of channels to ensure a wide range of respondents.
46.	As a result of the identified budget proposals, there will be members of staff at potential risk of redundancy, this is difficult to quantify for some proposals as further work needs to be undertaken on alternative delivery options and emerging ideas. In all cases, we will undertake the minimum 45 day statutory consultation period to comply with our legal obligations. Where relevant, the staff consultation process will commence from 16 November 2016 and the process for each set of proposals will continue for a minimum of

	45 days. Where detailed proposals have not yet been developed, the 45 day staff consultation will begin after the proposals are ready.																																
47.	The public consultation on the draft budget proposals will run from 16 November 2016 to 24 January 2017, during which time responses to the consultation questionnaire can be made. The consultation period will continue until the point of the final decision on 15 February 2017; any feedback received during this period will be updated verbally at the Cabinet meeting on 14 February 2017 ahead of the final decision at Full Council on 15 February 2017.																																
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48.	The City Council has on-going financial challenges. As a significant proportion of the Council's expenditure is on employee costs in the context of all outcomes being delivered within reducing envelopes, it is inevitable that the draft proposals will have an impact on staff cost and staff numbers.																																
49.	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.
50.	Through the consultation process the Cabinet are keen to explore all avenues with the Trade Unions and employees to identify wherever possible alternative options for delivering savings, in order that the level of any proposed workforce reductions and potential redundancies can be reduced. The Cabinet will also continue to ensure that impacted staff are aware of all the available options which can be used to avoid compulsory redundancies including: <ul style="list-style-type: none"> • Voluntary solutions • Early and Flexible retirement • Voluntary redundancy and proposals from employees such as • Reduced hours
<u>EQUALITY AND SAFETY IMPACT ASSESSMENTS</u>	
51.	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.
52.	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 took 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.
53.	Draft individual Equality and Safety Impact Assessments (ESIAs) have been completed by the Council's Management Team for those proposals contained in Appendix 3 that they identified require such an assessment, as they could have an adverse impact on a particular group or individuals. The draft individual ESIAs are available in Members' Rooms.
54.	The individual ESIAs will be analysed to consider the cumulative impacts the draft budget proposals may have on particular groups and the mitigating actions that could be considered. In order to give the right perspective to the draft budget proposals, the Cumulative Impact Assessment has to be considered in light of the available information on the City's profile, service user and non-user information and staffing profiles as well as the proportion of the Council's budget that is currently spent on targeted groups or communities. The first draft of the Cumulative Impact Assessment will be completed by a central team of officers within the Council, based on the initial ESIAs completed by service managers. This will be published on the Council's website.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
55.	The capital and revenue implications are fully detailed within the report.

<u>Property/Other</u>	
56.	None
LEGAL IMPLICATIONS	
57.	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.
58.	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.
59.	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..
60.	The legal significance of the Annual Budget derives from the Council's duty under the Local Government Finance Act 1992 (the 1992 Act) to set a balanced budget. Failure to make a lawful Council Tax on or before 11 March 2017 could have serious financial results for the Council and make the Council vulnerable to an Order from the Courts requiring it to make a Council Tax. Information must be published and included in the Council Tax demand notice. The Secretary of State has made regulations, which require charging authorities to issue demand notices in a form and with contents prescribed by these regulations.
61.	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.
62.	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.
63.	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.
64.	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.
65.	Of particular importance to the Council Tax setting process and Budget Meeting of the Full Council is the Council's Budget and Policy Framework Procedure Rules set out in Part 4 of the City Council's Constitution. These provide a legal framework for the decision making process whereby the Budget of the City Council is determined, and the Council Tax is set. In addition, Members need to be aware that these Rules provide a route whereby the Leader may require the Full Council to reconsider their position if they do not accept the Executive's recommended budget without amendment.
<u>Other Legal Implications</u>	
66.	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.
POLICY FRAMEWORK IMPLICATIONS	
67.	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 2017/18 must be proposed by the Cabinet for consideration by the Full Council under the Constitution.

KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	All
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1	Outcomes, Priorities and Executive Commitments
2.	Revised Medium Term Financial Strategy 2017/18 to 2020/21 (on a page)
3.	Outcome Plans
4.	Medium Term Financial Strategy 2017/18 to 2020/21
5.	Public Health Grant

Documents In Members' Rooms

1.	Individual Draft ESIA Documents
2.	
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	Yes
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact	No

Assessment (PIA) to be carried out.		
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.		