DECISION-MAKER:		**CABINET** **COUNCIL**		
SUBJECT:		**THE REVISED MEDIUM TERM FINANCIAL STRATEGY AND BUDGET 2019/20 to 2022/23**		
DATE OF DECISION:		**19 FEBRUARY 2019 (Cabinet)** **20 FEBRUARY 2019 (Council)**		
REPORT OF:		**CABINET MEMBER FOR FINANCE AND CUSTOMER EXPERIENCE**		
CONTACT DETAILS				
AUTHOR:	**Name:**	Sue Cuerden Stephanie Skivington	**Tel:**	**023 8083 4153** **023 8083 2692**
	E-mail:	Sue.cuerden@southampton.gov.uk Stephanie.skivington@southampton.gov.uk		
S151 Officer	**Name:**	Sue Cuerden	**Tel:**	**023 8083 4153**
	E-mail:	Sue.cuerden@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY

N/A

EXECUTIVE SUMMARY

This report details the Medium Term Financial Strategy (MTFS) for the period 2019/20 to 2022/23 and provides detail to inform Council in setting Council Tax and rents for 2019/20.

Outcome Based Planning and Budgeting (OBPB) has been further progressed, following its implementation in 2017/18, and continues to allow the council to focus and utilise resources towards agreed priorities and outcomes. A further element has been introduced in the 2019/20 budget setting process to incorporate business academies, and begin to embed commercialisation across the Council. This gives certainty to residents, businesses and service users that service provision has been prioritised and funded for 2019/20, within a stable financial framework.

The OBPB process will be further reviewed and refined in 2019/20 to ensure that the budget gap in 2020/21 and future years can be mitigated.

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.

Draft budget proposals were considered by Cabinet in October 2018, prior to commencement of full consultation with a range of stakeholders. This report includes the analysis on consultation feedback, which has been considered by the Cabinet, to enable the finalisation of the budget proposals included within this report for recommendation by Cabinet to Council on 20th February 2019 when it will set the budget. Equality and Safety Impact assessments have also been amended in light of the consultation feedback.

In response to the consultation feedback, and further member considerations, Cabinet have revised the draft proposals. The main changes are:

- An amendment to the proposed saving to close residential care homes. Following consultation feedback and further consideration by officers and members, the proposal in principle is to close Glen Lee, and make more efficient use of Holcroft House subject to staff consultation and a further report to Cabinet to make a final decision. This is further detailed in Document in Members Room 4.
- Two elements of the Adult Social Care Charging Policy proposals will not be implemented i.e. an annual fee to administer a Deferred Payment Agreement will not be levied; and the proposal to remove the exemptions given to previous clients of the Locally Based Hospital Units (LBHU) for non-residential care charges will not be implemented. Further detail is included in Document in Members Room 5.

Additionally, as a result of changes in service requirements, demand and unachieved savings, the report identifies the new pressures that impact on the General Fund in 2019/20 and the proposals to fund those additional pressures. In regard to the HRA, the report makes recommendations in relation to rents, service charges, and other charges to council tenants, and leaseholders, from 1st April 2019 for the 2019/20 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 Government announced its latest budget assumptions in the Autumn Statement on 29th October 2018. The implications of these announcements, along with the Local Government Finance Settlement (LGFS) have been included within the updated MTFS and budget position, along with an update on the impact of other national and local factors such as leaving the European Union and the changed assumptions in relation to Business Rate Retention (BRR).

The Ministry of Housing, Communities & Local Government (MHCLG) announced on the 13th December that Southampton City Council, along with Portsmouth City Council and Isle of Wight Council, had been successful in a joint bid to be a Pilot for 75% Business Rates Retention in 2019/20, and to continue the Solent Authorities Business Rates Pool.

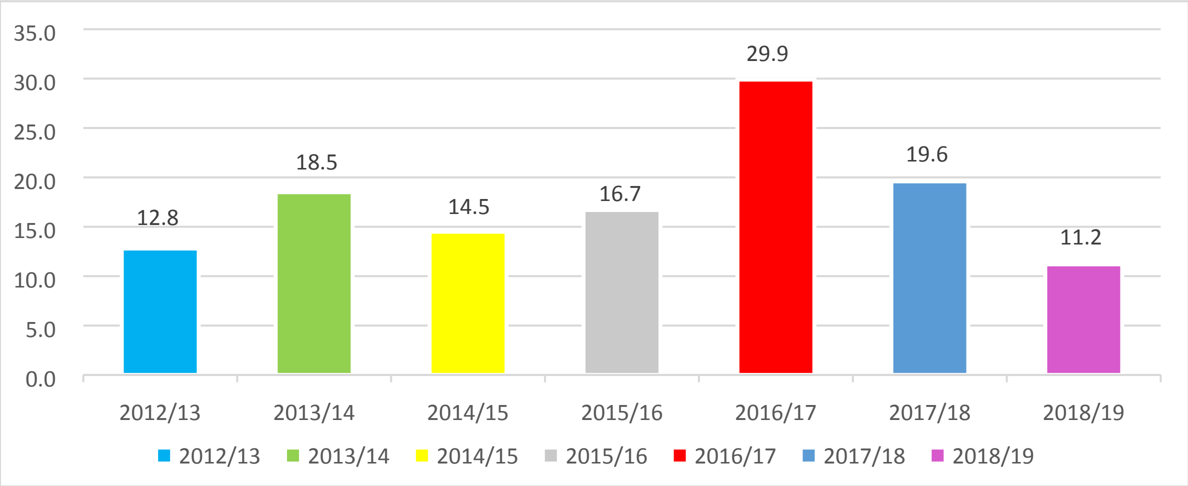
The impact of the latest capital programme and Capital Strategy, are also included in the MTFS, with the detail reported in the General Fund & Housing Revenue Account Capital Strategy & programme 2018/19 to 2022/23. This has been updated for changes as recommended by the Council Capital Board.

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 2019/20 as set out in paragraphs 31 to 38.
	ii)	Note the revised Medium Term Financial Strategy 2019/20 to 2022/23 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 20 February 2019.
	iv)	Note that formal budget consultation began on 24th October 2018 and ended on 16th January 2019. The outcome of the consultation in outlined in paragraphs 151 to 155.
	v)	To approve in principle the proposal for the closure of Glen Lee Residential Care Home, subject to formal staff consultation and a further report to Cabinet to make a final decision.
	vi)	To approve the Adult Social Care Charging Policy as amended following consultation as detailed in Members Room Document 5.
	vii)	Note that the Executive's budget proposals will impact on staffing and that consultation will be undertaken in line with legislation and the Council's agreed processes before proposals are implemented. The savings proposals set out in Appendix 1 propose the deletion of 87.31 Full Time Equivalent (FTE) posts, of which 18.33 FTE are vacant, leaving 68.98 FTE at risk of redundancy or TUPE transfer.
	viii)	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 2.99%, allowable under general powers to increase council tax without a referendum.
	ix)	To note that the report identifies additional general fund pressures totalling £17.71M in 2019/2020 as detailed in paragraphs 42 and 55.
	x)	To note that further proposals will need to be considered to address the 2020/21 and future years budget gap.
	xi)	Notes and recommends to Council to approve a change in the Council Tax – Empty Property Premium as noted in paragraphs 72 to 75.
	xii)	Notes and recommends to council where appropriate, the MTFS and General Fund Revenue Budget changes as set out in council recommendations i) to xxi).
Housing Revenue Account		
	xiii)	To note that, from 1st April 2019, a standard decrease be applied to all dwelling rents of 1.0%, as set out in paragraph 117 of this report, equivalent to an average decrease of £0.84 per week in the current average weekly dwelling rent figure of £84.39. This will be the final year of the required decreases.

	xiv)	To note an increase in weekly service charges as detailed in paragraph 118 from 1st April 2019 (including supported accommodation).
	xv)	To note savings totalling of £3.15M in 2019/20 as detailed in paragraph 120.
	xvi)	To note and recommend the Housing Revenue Account Revenue Estimates as set out in the report.
	xvii)	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 £2.0M in every financial year.
	xviii)	To note that 2019/20 is a 53 week rent year and that rental income and service charge payments will be paid by tenants in 49 instalments across this period.
COUNCIL		
General Fund		
	i)	Notes the general budget consultation process that was followed as detailed in paragraphs 151 to 155.
	ii)	Notes that the budget consultation feedback has been taken into consideration by the Cabinet and has informed their final budget proposals. Further details are contained within the Members Room document 3.
	iii)	Notes the Equality and Safety Impact Assessment process that was followed as set out in paragraphs 161 to 164. The updated ESIA's and Cumulative Impact Assessment are available documents in the Members Room, documents 1 and 2.
	iv)	Note the position on the forecast adverse outturn position for 2018/19 as set out in paragraphs 31 to 38.
	v)	Approves the revised Medium Term Financial Strategy (MTFS) for the period 2019/20 to 2022/23 attached as Appendix 2.
	vi)	Approve the General Fund Revenue Budget as detailed in Annex 1 of the MTFS in Appendix 2.
	vii)	Approves the revised proposals (following consultation) which reduce cost and generate income that amount to £6.77M in 2019/20 increasing to £10.93M in 2020/21. These proposals are detailed in paragraphs 44, 56 and 57 and in the Outcome Plan Appendices in Appendix 1.
	viii)	Note that the Executive's budget proposals will impact on staffing and that consultation will be undertaken in line with legislation and the Council's agreed processes before proposals are implemented. The savings proposals set out in Appendix 1 propose the deletion of 87.31 Full Time Equivalent (FTE) posts, of which 18.33 FTE are vacant, leaving 68.98 FTE at risk of redundancy or TUPE transfer.
	ix)	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 2.99%, allowable under general powers to increase council tax without a referendum.
	x)	Approves additional general fund pressures totalling £17.71M in 2019/20 as detailed in paragraphs 42 and 55.
	xi)	Approves a change in the Council Tax – Empty Property Premium as noted in paragraphs 72 to 75.

	xii)	To delegate authority to the Service Director – Finance & Commercialisation (S151 Officer), following consultation with the Cabinet Member for Finance and Customer Experience, to do anything necessary to give effect to the proposals contained in this report.
	xiii)	Sets the Council Tax Requirement for 2019/20 at £99.75M as per Appendix 3.
	xiv)	Notes the estimates of precepts on the council tax collection fund for 2019/20 as set out in Appendix 4.
	xv)	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		
	xvi)	Approves that, from 1st April 2019, a standard decrease be applied to all dwelling rents of 1.0%, as set out in paragraph 117 of this report, equivalent to an average decrease of £0.84 per week in the current average weekly dwelling rent figure of £84.39. This will be the final year of the required decreases.
	xvii)	Approve an increase in weekly service charges as detailed in paragraph 118 from 1st April 2019 (including supported accommodation).
	xviii)	Approve savings totalling of £3.15M in 2019/20 as detailed in paragraph 120.
	xix)	Approves the Housing Revenue Account Revenue Estimates as set out in the report.
	xx)	Approves 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 £2.0M in every financial year.
	xxi)	To note that 2019/20 is a 53 week rent year and that rental income and service charge payments will be paid by tenants in 49 instalments across this 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 MTFS so that the financial position is clear for budget proposals to be drawn up for the forthcoming year.	
2.	The council has implemented a focused approach on Outcomes Based Planning and Budgeting which looks at utilising decreasing resources towards agreed priorities and outcomes.	
3.	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		

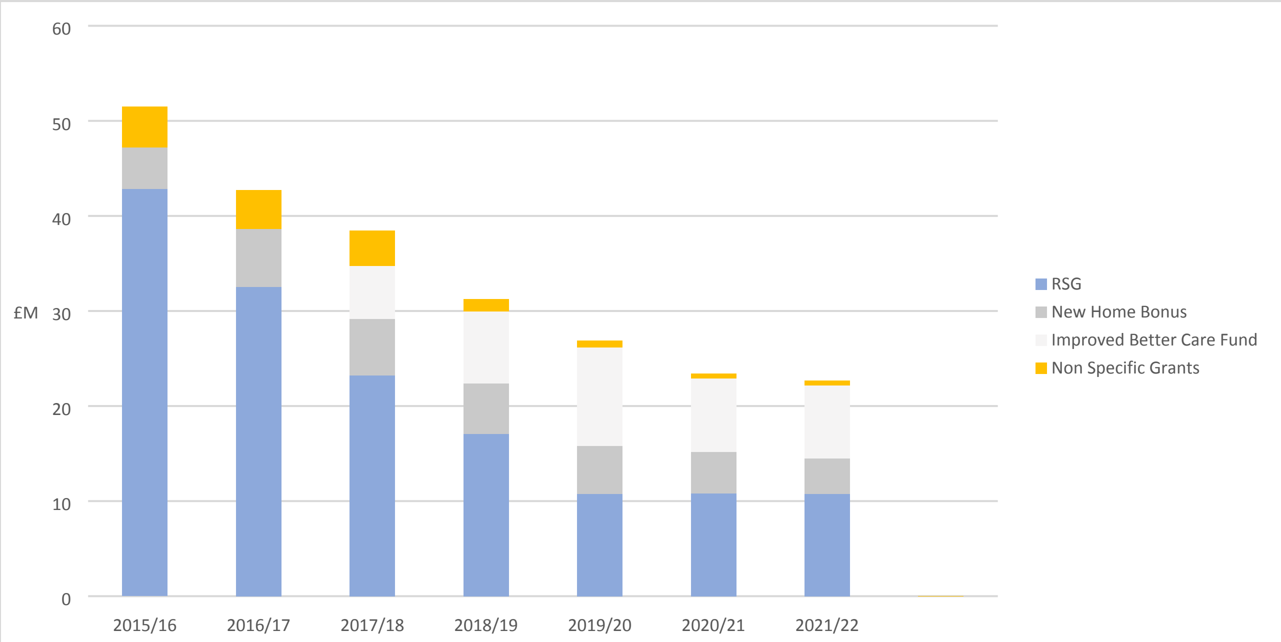
4.	Alternative options for revenue spending and MTFS assumptions form an integral part of the development of the overall MTFS that will be considered at the council budget setting meeting on 20th February 2019.
5.	Part of setting the General Fund Budget and Medium Term Financial Strategy and Model, requires a view to be taken on the revenue cost of capital to the Council 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.
6.	This report sets out the HRA revenue budgets for 2019/20 and the 30 year HRA business plan covering the period 2019/20 to 2048/49. The proposed changes to rents and other charges are an integral part of the revenue estimates for 2019/20.
7.	Additional alternative options identified in relation to the Care Home, Adult Social Care Charging Policy and HRA Service Charges proposals are set out in full in the Document in Members Rooms relating to each of these proposals respectively.
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 and council tax 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 leaving the European Union. However, there is ministerial support to continue working towards to 100% Business Rate Retention and reviewing relative needs via a Fair Funding Formula. Further detail is included in paragraphs 19 to 21.
11.	The Provisional Local Government Finance Settlement, issued on 13th December 2018, has indicated that there will be a move to 75% business rate retention in the medium term from 2020 onwards although this has not been reflected in the MTFS update at this time. The MTFS will be updated as further details are confirmed but is expected to be fiscally neutral.
12.	A 75% Business Rate Retention Pilot bid was submitted to the MHCLG on the 25th September 2018 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 13th December 2018 that the bid has been successful.

	The Pilot bid covers the financial year 2019/20 only. This has been factored into the updated MTFS and further details are included in paragraphs 19 to 21.
13.	Over the last 6 years the council has approved savings of £123.2M but to be sustainable in the future will require us to continue to change, reduce, stop and in some cases, develop new services. The amount of savings per year is shown in the following graph: 
14.	The MTFS, approved by Council in 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 were approved by Council in July 2018. 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 driven by technology, national and local policies and the austerity challenges. For us this is accompanied by ongoing challenges in the shape of managing demand in adults and children's social care. Chart 1 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.

18. As a result we have added demand management strategies for social care to the MTFS as detailed in annexes 3 and 4 of Appendix 2.

Chart 1 – Government Funding Reductions



For comparison purposes 2018/19 & 2019/20 still contain the RSG the council would have received without the Business Rates Retention Pilot.

BUSINESS RATES POOL AND 75% BUSINESS RATES RETENTION PILOT

19. Following a successful application to the MHCLG Southampton will be a 75% Business Rate Retention pilot and will remain as part of the Solent Pool. As a result the Council will forgo Revenue Support Grant and continue to pay a business rates tariff rather than receive a top up. All implications of this have been included in the MTFS.

20. The governance arrangement will be unchanged from the current pilot arrangements with a Board consisting of the three council leaders, giving opportunity for the 3 councils to retain half of the government's share of business rates growth and invest this in services, financial stability and sustainable, and reinvesting in promoting further growth in the city.

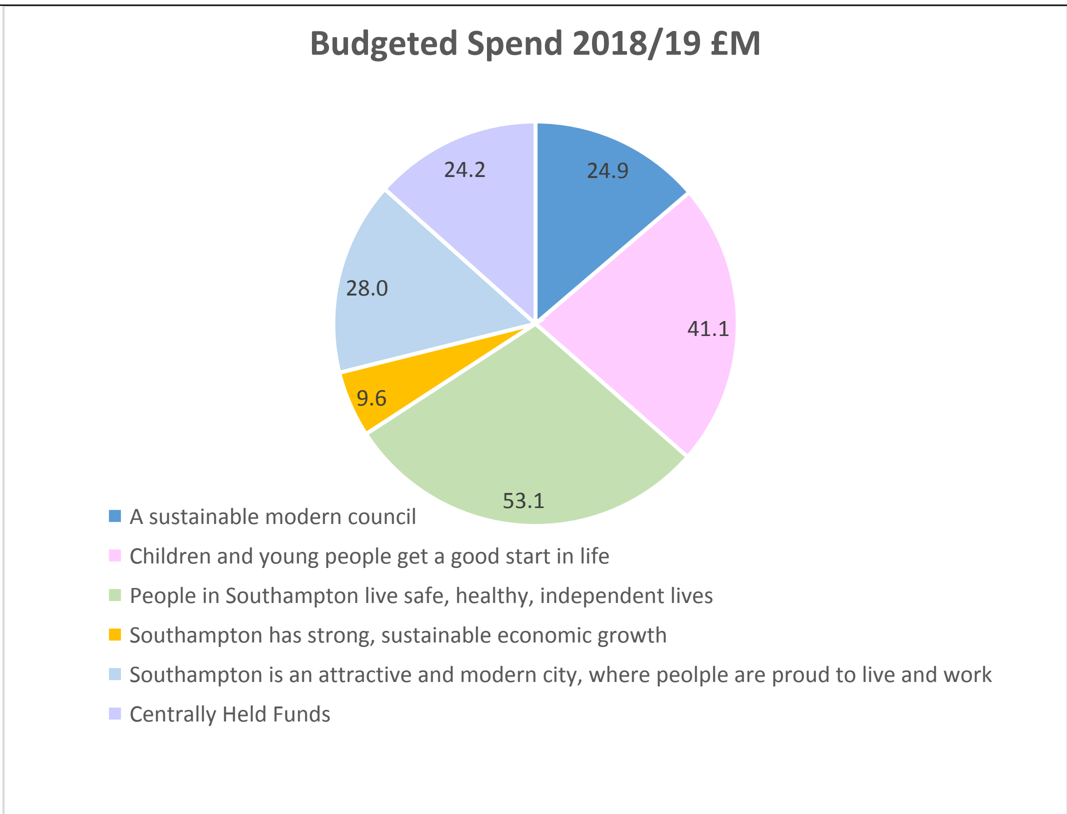
21. The council's financial benefit from any growth from 2019/20 pilot will not impact until 2020/21. This is expected to be in the region of £2.0M and has been included in the financial position within this report for 2020/21 only due to the business rates pilot being one year only at the present time.

MEDIUM TERM FINANCIAL STRATEGY AND MODEL

22. The council currently spends £610M 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 (£239M) is included in the General Fund and is used to fund all other services.

23. Chart 2 below shows how this is spent over the approved Outcomes.

Chart 2 – Budgeted Spend Per Outcome 2018/19

	
24.	Council approved a 5 year MTFS in February 2018, 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 2022/23. 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 2.99% which (based on 2018/19) represents £0.86 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. In February 2018 the forecast financial position was a budget gap of £6.95M for 2019/20 and a £14.10M budget gap for 2020/21 as set out in Table 1 below.

Table 1 Gap in funding

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Net Revenue Expenditure	180.88	185.26	196.18	196.28
Funding Available	(180.88)	(178.31)	(182.08)	(185.35)
Net Saving Requirement as at Feb 2018	**0.00**	**6.95**	**14.10**	**10.94**

29. Since February 2018 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

30. The MTFS has been reviewed to take into account the following:

- The current forecast outturn position for 2018/19 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 assumptions in the Autumn Budget on 29th October 2018. 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 Business Rate Retention (BRR) assumptions.

2018/19 Forecast Outturn Position

31. Whilst this report is concerned with an update of the MTFS for the period from 2019/20 onwards, there are elements of the 2018/19 forecast outturn that will have an impact on the overall financial position. The latest position, as at 31st December 2018, is that there is a forecast service underspend against budget of £0.58M.

32.	Table 2 below shows the summary forecast outturn position: **<u>Table 2 – 2018/19 Summary Forecast Outturn Position</u>**

	Forecast Outturn Variance £M	Forecast Outturn Variance %
Baseline Portfolio Total	**7.70 A**	**4.18 A**
Other Expenditure & Income	5.66 F	3.07 F
General Government Grants	2.62 F	1.42 F
Net Underspend	**0.58 F**	**-**

33. The overall forecast overspend on portfolios is £7.70M which has been offset by the release of central funding. This relates to:

- Following a review of central inflation requirements, £2M has been released to help meet the forecast shortfall in both procurement and digital savings;
- Additionally, £0.3M of contingencies have been released to meet additional incinerator outage costs, with a further £3.38M released to meet demand pressures.
- Winter Pressures funding of £1.11M was announced in the Autumn Budget Statement to be received in 2018/19 for use to meet Adult Social Care Pressures.
- Additional Social Care Grant was announced in Spring 2018, this is to be used to offset the Adult Social Care overspend (£0.68M).
- A Business Rate Levy refund has been announced as part of the Provisional Local Government Finance Settlement December 2018 of £0.84M.

34. The key areas of overspend are:

- Adults Portfolio, with a £4.69M forecast overspend;
- Children's & Families, £2.71M forecast overspend; and
- Aspiration, Schools & Lifelong Learning, £1.31M forecast overspend.

This is further detailed in Table 3 below.

35. 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. It is expected that the requirement for action plans will continue into 2019/20, 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 2018/19 and how they have impacted on the 2019/20 proposed estimates:

36. **Table 3 – Impact of 2018/19 Pressures**

Outcome	2018/19 Pressure		How this is being dealt with in the MTFS Model
	Description	**£M**	
Strong and sustainable economic growth.	Unachieved saving for property rationalisation. Savings have not been realised in the Capital Asset budget in relation to this. It has to date been managed from one-off underspends and increases in income.	1.70	In 2018/19 this is being met from underspends in the Central Repairs and Maintenance budget and an overachievement of income in investment property. In the MTFS from 2019/20 this has been added in as a budget pressure in future years, partially off-set by a compensating increase in the investment property budget to recognise the additional income generated.
Children and young people get a good start in life	Adverse variance in Looked After Children as being unable to meet savings targets due to numbers of high cost LAC children in service.	2.88	This is being addressed through the Children's Demand Strategy developed as part of the business planning process – targeting Residential step downs and preventing children coming into care with locality based model. The ongoing impact has been addressed in the 2019/20 and future years in the MTFS.
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.	1.10	The Service is working on the following plans to address the pressure by; Providing training for independent travel for post 16. Charging for Post 16 Home to School Transport provision. Withdrawing Early Learning Group Home to School transport provision. The ongoing impact has been addressed in the 2019/20 and future years in the MTFS.

Outcome	2018/19 Pressure		How this is being dealt with in the MTFS Model
	Description	£M	
Children and young people get a good start in life.	Pressure has arisen in the Jigsaw service due to increasing demand and higher costs of placements. Of these, £0.09M is from increased Direct Payments and £0.26M is for additional residential placements.	0.35	To mitigate this pressure the Service is undertaking case by case reviews to identify opportunities to reduce existing provision where possible and ensuring that new placements are best value and appropriate.
Southampton is an Attractive Modern City where people are proud to live and work	Regulatory Services Cemeteries and Crematorium has a forecast reduction in income since the new crematorium in Romsey opened. A marketing plan is being developed and fee increases are proposed to mitigate this impact.	0.55	A pressure of £0.4M has been built into the MTFS proposals.
Southampton is an Attractive Modern City where people are proud to live and work	Regulatory Services The introduction by government of an online service for Nationality Checks has caused a loss of income to the service as applicants are no longer obliged to take this service from the registration office, resulting in a reduction in income.	0.08	A pressure of £0.08M has been built in to the MTFS to reflect this loss.
Southampton is an Attractive Modern City where people are proud to live and work	Local Authority Trading Company (LATCo) Whilst some of the income generating ideas that were part of the LATCo proposals have been progressed it has not been possible to take forward all the ideas as quickly as originally envisaged. This has created a pressure in 2018/19 and 2019/20, however services that were in phase 1 do go on to achieve more than the original amount allocated to them.	0.33	Pressure built in to MTFS for 2019/20, assumption that income will increase as services become more commercial in the longer term.

Outcome	2018/19 Pressure		How this is being dealt with in the MTFS Model
	Description	**£M**	
Southampton is an Attractive Modern City where people are proud to live and work	Parks and Open Spaces The Council has been working through a significant backlog of essential tree works since the previous contract was brought back in house in April 2017. This has resulted in less ability to focus on income generating work, creating a pressure. The backlog will continue to be addressed throughout 2018/19 and 2019/20.	0.16	Pressure built into the MTFS for 2019/20 only, to reflect expectation that there will be increased focus on income generating activity from 2020/21.
Southampton is an Attractive Modern City where people are proud to live and work	Waste Collection and Disposal A saving proposal regarding the introduction of CCTV was expected to reduce the security costs at the depot however this has not proved realisable.	0.08	A pressure for damage and repair costs has been identified and built in to the MTFS for 2019/20, and is offset through savings arising from AWC on waste disposal contract.
Southampton is an Attractive Modern City where people are proud to live and work	Waste Collection and Disposal Post February Budget report saw a significant change in market values for dry & mixed recyclables, particularly for cardboard and mixed paper commodity. Indications are that market prices are set to continue to decrease due to the uncertainty pertaining to export markets for recyclables, particularly within the fibre markets. Additionally, lower than anticipated take up of income for bins, and the decision to freeze charges for green waste collection have also created a pressure.	0.12	A pressure to reflect reduced income has been built in to the MTFS, and is offset through savings arising from AWC on waste disposal contract.

Outcome	2018/19 Pressure		How this is being dealt with in the MTFS Model
	Description	**£M**	
Southampton is an Attractive Modern City where people are proud to live and work	Waste Collection and Disposal Due to the age of the refuse collection vehicles the cost of repair has increased and with this the cost of hire vehicles.	0.21	A pressure for damage and repair costs has been identified and built in to the MTFS for 2019/20.The Council agreed to the purchase of new vehicles at its meeting in December 2018.
People in Southampton live safe, healthy independent lives.	Residential Homes Residential homes overspend due to a significant increase in the use of temporary staffing at Glen Lee and Holcroft House residential care homes, in order to ensure safe and high quality care.	0.58	The mitigation in future years relates to the proposed future of residential homes savings proposal, including a staff restructure of Holcroft House to improve resilience and reduce the use of agency staff (subject to a separate staff consultation and Cabinet decision) and additional funding of £100k, which has been identified as a pressure.
People in Southampton live safe, healthy independent lives.	Long Term Care Additional demographic demand pressures and resulting unachieved savings for long term care.	4.03	Further reviews currently taking place which could help mitigate overspend for 2019/20. The pressure is split £2.16M for demand and £1.89M for unachieved savings. The Future Adult Social Care demand strategy currently being agreed is expected to arrive at additional savings.
People in Southampton live safe, healthy independent lives.	Unachieved savings on Adult Mental Health & Out Of Hours Services	0.90	Further reviews currently taking place which could help mitigate overspend for 2019/20. The Future Adult Social Care demand strategy currently being agreed is expected to arrive at additional savings.
Total		**13.07**	

37. Where a 2018/19 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 and the revised financial sections of the Outcome Plans at Appendix 1.
38.	Further details on the forecast outturn position for 2018/19 are included within the Revenue Financial Monitoring for the period to the end of December 2018 report to be considered by Cabinet at its meeting on the 19th February 2019.
	Medium Term Financial Forecast
39.	Table 4 below identifies the changes to the Medium Term Financial Strategy Model as reported to Cabinet in October 2018.
40.	Table 4 - MTFS Model

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Budget Gap - February 2018	**0.00**	**6.95**	**14.10**	**10.94**	**10.94**
2018/19 Pressures and Mitigations	5.32	6.16	4.87	4.17	3.93
Future Pressures	0.00	4.85	4.85	6.85	7.85
Savings Proposals	0.00	(6.44)	(10.45)	(10.60)	(10.60)
Review of central resources & Non recurrent funding	0.00	(11.53)	(8.77)	(7.41)	(7.41)
Amended Budget Gap - October 2018	**5.32**	**0.00**	**4.60**	**3.95**	**4.71**

	EXPLANATION OF ADJUSTMENTS TO THE REVISED MTFS POSITION
	October 2018 Budget Position
41.	In October 2018 Cabinet noted a revised Medium Term Financial Position, which presented a balanced position in 2019/20, but amended the savings requirement by 2022/23 to £4.71M. The following paragraphs summarise the reasons for the changes.
	October 2018 Pressures
42.	Table 5 below shows the total pressures detailed in the Medium Term Financial Strategy Update report to Cabinet in October 2018. This is a combination of pressures arising in 2018/19 which will impact on future years (offset by mitigations), and new pressures arising from 2019/20 and future years. Table 3 in paragraph 36 details the 2018/19 pressures.

Table 5 – Additional Pressures October 2018

Outcome	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Southampton has strong, sustainable economic growth	1.67	1.67	1.67	1.67
Children and young people get a good start in life	4.82	4.04	3.44	3.20
People in Southampton live safe, healthy, independent lives	3.49	3.39	5.39	6.39
Southampton is an attractive and modern city, where people are proud to live and work	0.86	0.46	0.36	0.36
A sustainable modern council	0.16	0.16	0.16	0.16
Total 2018/19 Pressures and New Pressures Arising 2019/20 October 2018	**11.01**	**9.72**	**11.02**	**11.78**

43. Table 6 below summarises the 2019/20 and future years pressures that were identified at that time.

Table 6 – 2019/20 Summary of Pressures Identified October 2018

Outcome	**2019/20 £M**	**2020/21 £M**	**2021/22 £M**	**2022/23 £M**
Children and Young People get a good start in life				
Reduction in agency spend	0.40	0.40	0.40	0.40
Looked After Children Services Provision	2.63	2.63	2.63	2.63
Explore opportunities to integrate QA functions with another council	0.04	0.04	0.04	0.04
Education Psychology - Social Enterprise	0.05	0.05	0.05	0.05
Translation Service increased trading	0.00	0.00	0.00	0.00
Redesign an integrated Early Help service	0.20	0.20	0.20	0.20
People in Southampton lead safe, healthy, independent lives				
Kentish Road respite centre remaining open	0.60	0.60	0.60	0.60
Demographic Pressures	0.00	0.00	2.00	3.00
Southampton is an attractive and modern city where people are proud to live and work				
Invest in Flood Risk Management service to provide resources to enable the priority flood prevention schemes to be delivered	0.07	0.07	0.07	0.07
LATCo Savings	0.55	0.55	0.55	0.55
Southampton is a City with Strong, Sustainable, Economic Growth				
Cultural Trust	0.15	0.15	0.15	0.15
A Modern Sustainable Council				
IIC Social Media Team - enquiries from corporate SCC accounts	0.16	0.16	0.16	0.16
Total Pressures 2019/20 and Future Years	**4.85**	**4.85**	**6.85**	**7.85**

October 2018 Savings

44. Table 7 below summarises the savings identified in October 2018 by Outcome. Where relevant, approval was sought to consult on the proposals the result of which is discussed in paragraphs 151 to 155.

Table 7 – Summary of Savings Identified October 2018

Outcome	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Children and Young People get a good start in life	(1.73)	(2.57)	(2.57)	(2.57)
People in Southampton lead safe , healthy, independent lives	(1.33)	(3.09)	(3.09)	(3.09)
Southampton is an attractive and modern city where people are proud to live and work.	(0.26)	(0.31)	(0.36)	(0.36)
Southampton is a City with Strong, Sustainable, Economic Growth	(1.24)	(1.74)	(1.94)	(1.94)
A Modern Sustainable Council	(1.87)	(2.73)	(2.64)	(2.64)
Total Savings 2019/20 and Future Years	**(6.44)**	**(10.45)**	**(10.60)**	**(10.60)**

45. Full details of each of these pressures and savings can be found in the October 2018 Medium Term Financial Strategy Report. This can be viewed by following the link below, Agenda Item 10. These are also detailed in Appendix 1 within the Outcome Financial Appendices.

Cabinet Report October 2018

Funding Adjustments

46. A review was undertaken of central resources and available non-recurrent funding which could be released to mitigate the above net pressures. This included:

- The utilisation of £2.5M additional business rates generated as a result of the 2018/19 Business Rate Retention Pool Pilot;
- A review of Business Rates and Council Tax Growth;
- £3.3M of Collection Fund surplus reported at the end of 2017/18 which is available to support the 2019/20 position;
- A council tax increase of 2.99%; and
- A review of direct revenue contributions to capital has identified that £1.44M can be released to support the revenue position.

MTFS Adjustments

47. 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 due to 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

48. The Provisional Local Government Finance Settlement (PLGFS) for 2019/20 was published on the 13th December 2018.

49. This settlement marks the final year of the 4 year settlement that was accepted by Southampton City Council (SCC) along with 97% of local authorities. The main points that impact on the Council were:

- Consultation documents have been published on the next stage of the implementation of further business rates retention and the Fair Funding review, for

54.

	implementation in April 2020. This takes into account the outcome of the consultation on relative needs which took place in early 2018. The deadline for consultation responses is the 21st February 2019; • Southampton has been accepted as a 75% business rate retention pilot in a pooling arrangement with Portsmouth and the Isle of Wight (The Solent Region Pool), alongside 14 other new pilots; • £180M of business rates levies surplus will be distributed to authorities on a needs basis - payment will be made in 2018/19 (£0.84M for SCC); • Social Care funding announced in the Autumn Budget 2018 was confirmed; • There has been no change in the New Homes Bonus baseline growth position of 0.4% in the 2019/20 settlement; • LGFS 2018 announced that a Green Paper on future challenges in Adult Social Care would be published in the summer of 2018. The paper is still awaited and is expected to be published before the end of 2018/19; • The Council Tax referendum limit has been set at 3% for 2019/20 (the same as the limit for 2018/19); and • A £24 Council Tax flexibility has been afforded to the Police and Crime Commissioner.
50.	The full details of all changes notified within the PLGFS are detailed within the MTFS in Appendix 2.
51.	The final Local Government Finance Settlement was published on 29th January 2019 with no changes to the provisional settlement impacting on the Council.
	FURTHER CHANGES
52.	Table 8 below details further changes since the position reported to Cabinet in October 2018, including the impact of the Provisional Local Government Financial Settlement.
53.	**<u>Table 8 – Further Changes</u>**

February Budget Report 2019	**2019/20 £M**	**2020/21 £M**	**2021/22 £M**	**2022/23 £M**
Budget Gap October 2018	0.00	4.60	3.95	4.71
Additional pressures	6.70	6.80	6.80	6.80
Removal of Savings post consultation	0.09	0.55	0.55	0.55
Executive Commitments	0.03	0.00	0.00	0.00
Social Care Demand Reserve	1.00	1.00	1.00	0.00
Changes in Growth Assumptions	(0.24)	0.19	0.32	(1.70)
Business Rates Additional Surplus from BRR Pilot	(0.78)	(2.00)	0.00	0.00
Potential Additional Savings	(0.33)	(0.33)	(0.33)	(0.33)
Treasury Management	(1.36)	(1.19)	(1.32)	0.00
Changes in Other Central Grant Funding	(4.07)	(0.60)	(0.55)	0.09
Changes in Central Funding	(0.46)	0.44	1.41	1.49
Surplus carried forward from 18/19	(0.58)	0.00	0.00	0.00
Amended Budget Gap February 2019	**0.00**	**9.46**	**11.83**	**11.60**

54.	2020/21 and future years budget gap to be addressed including further review of savings requirements and MTFS Funding Assumptions.
	<u>Revised Pressures</u>

55.	Since the October 2018 report was published there have been further changes to the position identified. These are set out below. <u>Safe, Healthy & Independent Lives - £6.60M</u> • <u>Additional non achieved savings £6.40M</u> Savings unachieved due to increasing demand in relation to client care which has been reflected in an increase in average costs per client. This includes £0.1M pressure relating to the annual running costs of the residential care homes in relation to cover required for sickness, annual leave and training. • <u>Benefits Advice & Support - £0.08M (2019/20 & 2020/21)</u> Further investment is required in providing benefits advice and support for targeted tribunal work with those affected by WR on disability benefits, and additional support for claimants with complex cases/claims who need support early in the claim process to reduce the risk of having to go to appeal. • <u>Domestic Violence Service - £0.12M recurring.</u> In order to meet the current demand on the service it is necessary to increase the team by 3 FTE. The service provides support to victims at crisis point providing intensive advocacy and support for a short time to reduce serious risk of harm. The increase in demand has also been mirrored in the voluntary sector with all service providers being under significant pressure to meet the current levels of demand. <u>Strong Economic Growth £0.10M</u> • Following a Court of Appeal ruling that cash machines should not be assessed separately for business rates in supermarkets, it is expected that there will be a fall in business rates income once these appeals have been settled. This is estimated to impact the Council by £0.10M per annum.
	<u>Removal of Savings Post Consultation</u>
56.	In response to the consultation feedback, and further member considerations, Cabinet have revised the draft proposals considered by Cabinet in October 2018. The main changes are: • An amendment to the proposed saving to close residential care homes. Following consultation feedback and further consideration by officers and members, the proposal in principle is to close Glen Lee and make more efficient use of Holcroft House. This reduces the saving by £0.41M. This is further detailed in Document in Members Room 4. • Two elements of the Adult Social Care Charging Policy proposals will not be implemented i.e. an annual fee to administer a Deferred Payment Agreement will not be levied; and the proposal to remove the exemptions given to previous clients of the Locally Based Hospital Units (LBHU) for non-residential care charges will not be implemented. Further detail is included in Document in Members Room 5.
	<u>Additional Savings</u>

57.	Further savings have been identified totalling £0.33M and relate to a number of small business as usual savings. These have now been included in the relevant outcome financial appendices as detailed in Appendix 1. These are further summarised in Table 9 below. It should be noted that these savings do not impact on staffing and do not require further consultation. Implementation costs will be funded by existing resources where possible or from a contribution from the MTFS reserve.
	Central Funding Adjustments

Table 9 – Summary of Additional Savings

Outcome	Sum of 2019/20 £M	Sum of 2020/21 £M	Sum of 2021/22 £M	Sum of 2022/23 £M
A Modern Sustainable Council	0.20	0.20	0.20	0.20
Southampton is a City with Strong, Sustainable, Economic Growth	0.04	0.04	0.04	0.04
People in Southampton lead safe, healthy, independent lives	0.09	0.09	0.09	0.09
Grand Total	**0.33**	**0.33**	**0.33**	**0.33**

Central Funding Adjustments

58. Business Rates

As a result of the Solent Region Business Rate Pilot, SCC will not receive RSG of £10.79M in 2019/20 as this is offset by the increased retention of Business Rates. In addition to this the council has received additional section 31 grants to compensate for the Government's announcement for reliefs to the High Street.

59. Collection Fund – Growth Business Rates & Council Tax

A further review has also been undertaken to assess the expected growth in Business Rates and Council Tax and a further adjustment has been included to reflect the expected profiling of growth in the City and the impact over the medium term.

60. New Homes Bonus

The forecast for New Homes Bonus in future years has been reduced to reflect the level of growth achieved in 2018/19, which was 0.86% compared to the previous forecast of 0.96%. Therefore, the forecast for future years has been reduced to reflect the actual level of growth achieved in 2018/19 and also assumes that the Government continues to apply a 0.4% baseline below which growth will not be rewarded.

61. Central Grants

Additional grants have now been notified for 2019/20 that were not expected to continue. Council Tax Support Administration Grant will be higher by £0.12M in 2019/20; Housing Benefit Admin Support Grant (£0.86M) has been notified, and with the announced delay in the full roll out of Universal Credit, further grant assumptions have now been built over the term of the MTFS. This have been offset by removing other minor grants for which no notification has been received and no grant has actually been notified or received in 2018/19.

Further additional social care grant monies have been announced of £3.0M (including £1.10M for Winter Pressures) which have been built into the position for 2019/20.

62. Treasury Management

A review of capital funding for the capital programme and likely debt management costs in 2019/20 has been undertaken allowing the release of £0.58M. This has been achieved

	mainly as a result of slippage on the capital programme, and the identification of other funding sources allowing the reduction in the council's anticipated borrowing requirement.
	Other Changes
63.	Business Rates Retention £2.5M additional business rates were assumed in setting the 2019/20 budget in February 2018 as the result of the successful application for a Solent Authority 100% Business Rate Pilot. It is now expected to be a £3.28M, with the additional £0.78M now being shown in the MTFS. A further £2.0M is expected in 2020/21, as a result of the successful application to continue the Solent Authority Business Rate Pool Pilot at 75% in 2020/21.
64.	2018/19 Surplus As detailed in paragraph 31 to 38, there is an anticipated £0.58M overall underspend against the budget in 2018/19. This surplus will be carried forward to support the closing of the 2019/20 budget gap.
65.	Social Care Demand Reserve It is proposed to create a reserve to manage the fluctuations specifically in relation to Social Care demand. The aim of the reserve it to meet the cost of demand compared to an 'average' year funding requirements rather than rebaselining the social care budget each year based on demand assumptions at that time. This is in effect a 'smoothing' mechanism to help deal with peaks in demand. £1.0M a year will be added from 2019/20 funded from releasing central inflation funding.
	Executive Commitments
66.	People in Southampton live safe, healthy, independent lives Green City Charter - £0.03M The council is proposing to develop a new citywide Green City Charter which will seek to deliver actions that will reduce pollution and waste, minimise the impact of climate change, stop health inequalities and create a more sustainable approach to economic growth. The Green City charter will identify a clear set of objectives that are aligned with national priorities. As well as setting a set of commitments and actions for the Council to deliver, it will seek support from partners across the city to do the same. A sum of £0.03M has been identified to develop a work plan involving both internal and external engagement to develop the proposal further, ensure priorities reflect the city's needs and establish a set of ambitious targets and a delivery plan for the Council. The Green City Charter and the council's action plan will be presented to Cabinet in spring 2019.
	THE COLLECTION FUND

67.	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 10. **Table 10 – Collection Fund**

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Council Tax – General Precept	88.94	92.71	95.12	97.22	99.06
Council Tax – Adult Social Care Precept	6.99	7.04	7.04	7.04	7.04
Business Rates	99.21	78.06	55.90	58.27	59.36

	Council Tax
68.	The Executive are recommending an increase in council tax for 2019/20 of 2.99%, with regard to the general power to increase council tax prior to referendum. £99.75M is the level of council tax required to provide a balanced budget for 2019/20. This is then divided by the council tax base set by the S151 Officer, following consultation with the Cabinet Member for Finance and Customer Experience, to give the basic amount of council tax for a Band D equivalent of £1,535.52. This is the equivalent of an increase of £0.86 per week. The full calculation is set out in Appendix 3. This does not include amounts from other precepting authorities.
69.	The estimates of the payments from the collection fund in the form of precepts for 2019/20 are set out in Appendix 4. This also details the increase in council tax by property band for 2019/20. This includes preliminary figures for the Police & Crime Commissioner (PCC) and the Fire Authority. The LGFS allows for an increase up to £24 for PCC and this has been proposed giving an increase of 14.39% on their precept. The Fire Authority have proposed an increase of 2.99% on their precept. Whilst these are the proposed increases these are subject to formal approval.
70.	The figures for both the PCC and the Fire Authority may not be approved until after 20th February 2019 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.
71.	The Council Tax base for 2019/20 has been set at 64,959 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.
	Council Tax – Empty Homes Premium
72.	From April 2019 Councils are being given powers to charge greater Council Tax premiums on homes left empty for over two years. To help reduce the number of long-term empty properties further, the Chancellor confirmed at the Autumn Budget 2017 that the Government would double the cap on the empty homes premium. In July 2018 the government announced further changes introducing an amendment that would allow councils to increase the council tax on homes left empty;

	• 1st April 2019 100% for properties that have been empty for less than 5 years (after the qualifying period of 2 years); • 1st April 2020 200% for properties that have been empty for 5 years or more but less than 10 years; and • 1st April 2021 300% for properties that have been empty for 10 years or more. Decisions on whether to charge a premium, and the exact rates to be charged will remain a matter for councils, taking local circumstances into account.
73.	By raising the premium from 50% to 100% in 2019/20 an additional £0.11M could be raised based on the current year known properties. In 2020/21 this could potentially double if the maximum percentage increases were adopted.
74.	It is proposed that Council approve this change in respect of the Empty Property Premium. It should be noted that formal consultation on this change is not required.
75.	At the current time the financial implications from the change in this policy have not been included in the MTFS. If adopted, these will be included in future updates of the MTFS for 2019/20 and future years.
	Business Rates
76.	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.
77.	The non-domestic rates (NDR) estimate for 2019/20 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 Budget Statement 2018 changes (funded by Section 31 Grant) the council's net rates payable for 2019/20 is £118.44M.
78.	After allowing for estimated losses in collection of £2.37M and estimated repayments in respect of the 2018/19 Rates of £5.57M giving a collectable rates figure of £110.51M.
79.	This is further adjusted to exclude Transitional Arrangements additional income of £1.42M, all payable to central government, and £0.31M costs of collection giving non domestic rating income of £108.78M.
80.	As detailed in paragraphs 19 to 21, SCC is part of the Solent Region Business Rates Pool and 75% Business Rates Retention Pilot for 2019/20. Any pilot has to be fiscally neutral to the government therefore the council foregoes Revenue Support Grant £10.79M and becomes a tariff authority rather than receiving a top up grant (£4.55M). The tariff will be £10.12M for 2019/20.
81.	In addition to income received from the collection of Business Rates, the council will receive grants under Section 31. Under the pilot scheme in 2019/20 these amount to £6.15M.
82.	It should be noted that as a result of retaining 75% of the business rates, the pool will receive half of 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.

83.	It is estimated that SCC's share of this growth will initially be in the region of £2.0M. The amount will be finalised during 2019/20.
84.	The overall level of income for business rates for 2019/20 for SCC is expected to be £78.06M to support the revenue position.
	PUBLIC HEALTH GRANT
85.	The Public Health Grant, which was introduced in April 2013, will continue to be a ring-fenced grant to local authorities into 2019/20. The final allocation of Public Health Grant for 2019/20 is £16.45M. The Public Health Grant has already seen year on year reductions from 2015/16 and will continue to reduce as outlined in Table 11 below.
86.	Table 11 Public Health Grant Reductions

	2018/19	2019/20
Public Health Grant	£16.90M	£16.45M
Percentage reduction in total grant from 2015/16 baseline	2.57%	2.64%

87.	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.
88.	The grant reduction in 2019/20 is £0.45M, as well as inflation and pay awards needing to be contained within expenditure. There is an expectation that this funding may be removed completely as part of the Business Rates Retention scheme.
	National Health Service (NHS) Long Term Plan – Impact on Public Health Funding
89.	In 2018, the government announced £20.5bn of additional funding for the NHS in England by 2023/24. The NHS long term plan sets out priorities for how this money will be spent over the next ten years.
90.	The plan indicates that the NHS and central government will look at funding key public health services from the NHS budget.
91.	It will consider whether there is a stronger role for the NHS in commissioning sexual health services, health visitors, and school nurses, and as a result how best to commission those services in the future. These services are currently funded from the local authority public health budget. The new budget for 2020/21 onwards is due to be announced in the spring spending review. Any changes in the Public Health Grant funding assumptions will be included in future updates of the MTFS.
	RESERVES AND BALANCES
92.	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.
	Earmarked Reserves
93.	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.
94.	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.
95.	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 2017/18 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.
	General Fund Balance
96.	The General Fund Balance is forecast to be £10.0M at the end of 2018/19. The required level of balance is determined by assessing the level of risk the council faces. This is still currently assessed at £10.0M.
97.	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.
98.	It should be noted that the average general fund balance for a Unitary is £9M, with Portsmouth City Council, a comparator authority, holding a general fund balance of £24.1M (including £3.5M Schools Balances) as at 31st March 2018.
	SCHOOLS UPDATE
99.	At 31st December 2018 there were 15 schools reporting a deficit balance as shown in table 12 below.

Table 12 Schools in Deficit

	Deficit £M	No. of Schools
Nursery	0.24	1
Primary	1.41	7
Secondary	1.97	5
Special	0.68	2
Total	**4.30**	**15**

These schools are working with Children's & Families to agree Deficit Recovery Plans (DRP). Provision for additional resources has been identified within earmarked reserves to fund a school improvement officer and additional finance support to work closely with these schools and to monitor achievement of actions during 2019/20.

100.	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.
101.	The pressure in 2018/19 (and assumed for 2019/20) is £2.41M. 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 (expected to be £0.9M in 2019/20). 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. In December 2018 a further allocation of High Needs Funding was announced with SCC receiving ££0.53M. Table 13 below shows the overall forecast pressure for 2018/19 and 2019/20.
102.	<u>Table 13 – High Needs Funding Pressure</u>

High Needs Pressures	**2018/19 £M**	**2019/20 £M**
Total Estimated Pressure 2018/19	2.41	2.41
Increase in High Needs Allocation	(1.09)	(0.90)
0.5% transfer of DSG from Schools Block	(0.70)	(0.70)
Additional SEN funding Announcement	(0.53)	(0.53)
Adjusted Pressure	**0.09**	**0.28**

103.	At this stage this results in a deficit position in 2018/19 of £0.09M increasing to £0.28M in 2019/20. A review is to be undertaken of the entire Education Service provided by the Council to identify options to the meet the remaining funding gap.
104.	It has been assumed that the above noted pressures will need to be accommodated within the Dedicated Schools Grant (DSG).
	HOUSING REVENUE ACCOUNT (HRA)
105.	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 approximately 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.
106.	**<u>2018/19 Forecast Position</u>**
107.	The income and expenditure budgets for the HRA were approved by council in February 2018 as shown in Table 14 below.
108.	The year-end forecast position for 2018/19 shows an adverse forecast variance of £0.97M compared to this budget.

	Table 14 – HRA Forecast Outturn Position 2018/19

	2018/19 Budget	Quarter 3 Forecast	Variance
	£M	£M	£M
Net rent income	(69.63)	(68.73)	0.90 A
Service charges & other income	(2.82)	(2.87)	0.05 F
Misc. Adjustments	0.00	0.00	0.00
RTB admin	(0.13)	(0.13)	0.00
Total income	**(72.58)**	**(71.73)**	**0.85 A**
Management	21.57	21.88	0.31 A
Depreciation	19.53	19.53	0.00
Responsive & Cyclical repairs	14.79	16.25	1.47 A
Other revenue spend	0.10	0.10	0.00
HRA cost of rent rebates	0.00	0.00	0.00
Total service expenses	**55.98**	**57.76**	**1.78 A**
Capital charges	6.17	6.17	0.00
Repayment of loans	5.96	5.50	0.46 F
Revenue contribution to capital	4.47	3.27	1.20 F
Total expenditure	**72.58**	**72.70**	**0.12 A**
(Surplus) / Deficit for the year	**0.00**	**0.97**	**0.97 A**

109. The variance of £0.97M 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 £0.97M of reduced revenue contribution to capital in 2018/19.

Medium Term Financial Position

110. This report sets out the HRA revenue budgets for 2019/20 and the 30 year HRA business plan covering the period 2019/20 to 2048/49. The proposed changes to rents and other charges are an integral part of the revenue estimates for 2019/20.

111. Following the Chancellor's announcement in the 2018 Autumn Budget, restrictions relating to HRA borrowing have been lifted. This means that the previous Southampton City Council HRA debt cap of £199.60M has been removed, and there is now the emphasis for councils to plan their new build strategy and financing at a local level. The process for identifying priorities and sites for new build developments is now taking place and is expected to form the basis of a new delivery strategy in 2019.

112. 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 is sustainable and can be serviced over the life of the Business Plan. • Investment in existing HRA stock can be achieved within the Government's previously set borrowing limit of £199.6M. Borrowing in excess of this limit has been included in the HRA Business Plan for additional stock investment and regeneration. • The capital spending plans include provision to maintain and improve all existing dwellings and based on a Housing stock capital strategy that is in the process of being developed and enhanced. • A provision of £131.0M is set aside for stock replacement over the next 30 years. This provision has been phased between year 4 and year 30 of the Plan. This amount allows for the provision of 15 new dwellings each year. • Currently, large scale new stock provision is not provided for in the Business Plan, any new build development will be subject to a business case and financial appraisal to assess the financial viability of the scheme. The revenue budget meets the minimum balances of £2.0M per year over the life of the Plan.
113.	The HRA Business Plan has, at points, shown revenue balances that increase above minimum levels within the 30 year period. This has been mitigated to an extent by repayment of loans outstanding across the life of the Business Plan. The surpluses are subject to change annually, and will reflect the annual review of stock investment needs, estimated unit income and expenditure, as well as the prevailing external economic factors of the time.
114.	The impact of the additional remedial works required in the aftermath of the Grenfell Tower disaster has highlighted the requirement for a more detailed longer term capital strategy to be in place, detailing specific works that are due over the forthcoming 5 to 10 years. This will enable decisions to be made that effect residents to be more transparent and for resource planning to be better informed and more efficient. The capital strategy initial plan was taken to Capital Board in November 2018, but a further update will be undertaken in 2019/20, which will then be regularly revised and reported thereafter.
115.	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.
	Rent & Service Charge Increases
116.	The current charging mechanism for service charges for the HRA does not currently recover all costs that are applicable for a service charge. This means that tenant rent is currently covering some of the costs associated with these areas. Due to this, an element of funding is diverted away from management, maintenance and replacement of stock which has a longer term effect on the delivery of an effective HRA that meets residents and organisation objectives and expectations. Increases in service charges are proposed for 2019/20 for areas that existing service charges have been underfunding. It is proposed that from early 2019 a working group will be set up to analyse all service charge related areas in the HRA and from there a service charge strategy be delivered for later discussion and/or approval. Supported Accommodation and Garages and Parking sites should be included within this process.

117.	In line with the Welfare Reform and Work Act 2016, HRA rents will be reduced by 1%. This is the final year of a four year programme of rent reductions, and the latest advice from MHCLG is that rents will be allowed to increase by up to CPI+1% for the years 2020/21 to 2024/25, and after that by up to CPI.
118.	Approval is sought to increase service charges by the below rates from 1st April 2019. The increases are based on moving towards full cost recovery for the various service charge areas. This gives revised service charges as follows: General Service Charges • Digital TV £0.43 (£0.00 increase from 2018/19) • Concierge monitoring £2.18 (£0.94 increase from 2018/19) • Door Entry System £0.22 (New Charge) • Tower Block Warden £5.12 (£0.00 increase from 2018/19) • Walk-Up Block Wardens £0.54 (New Charge) • Emergency Lighting Testing/Repairs £0.27 (New Charge) • Cleaning service in walk-up blocks £0.72 (£0.07 increase from 2018/19) • Garden/Ground Maintenance – Tower & Walk Up Blocks £0.22 (New Charge) Supported Accommodation • Call Monitoring Charge - £1.29 (£0.00 increase from 2018/19) • Careline Silver - £3.09 (£0.00 increase from 2018/19) • Careline Gold - £4.38 (£0.00 increase from 2018/19) • The above changes have been subject to consultation, details relating to this is contained in a specific Equality and Safety Impact Assessment : http://www.southampton.gov.uk/images/esia-shil-4-revising-service-charges-for-tenants_tcm63-403401.pdf
	Other Key Assumptions
119.	Rent arrears have continued to rise in the current financial year, 2018/19, 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
120.	As part of the budget setting process, the HRA business plan has reflected the statutory requirement for a 1% reduction in dwelling rent for the financial years 2016/17 to 2019/20. This has resulted in a loss of income of £33M compared to the projected income in the 2015/16 business plan. The Business Plan approved by council in February 2018 included a 2019/20 savings target of £3.15M. Savings proposals meeting this target have been identified and were reported to Cabinet in October 2018. Table 15 below provides an update on the current HRA budget position:

	Table 15 – HRA Budget Position
121.	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.
122.	There has been an increased requirement for capital expenditure in 2019/20 to fund the additional costs of the identified remedial works following the Grenfell Tower disaster. There has also been an additional cost pressure for the capital programme in relation to further regeneration works required for the Townhill Park scheme. These pressures, alongside the additional savings requirement for a Reduction in Contribution to Capital Funding from revenue financing has meant that additional borrowing has been required in 2019/20, as well as a deferral in repayment of loans which have instead been refinanced over a longer period of time. The HRA 30 year Business Plan is still sustainable, and the cost pressures are all expected to be short term occurrences.
123.	The above savings proposals have now been finalised and do not require the need for public consultation, although the changes to service charges were part of the budget consultation process.
	HRA Balances
124.	The HRA Business Plan revenue balances enable a longer term repayment of debt to take place. Following recent cost pressures, and the removal of the debt cap leading to ongoing regeneration/new build borrowing of £3.0M per year, debt repayments are still taking place during the life of the Business Plan, but there remains an outstanding debt of £139.7M at the end of the 30 year plan. A significant risk to the long term plan is that, if property works related inflation was to exceed general inflation over a prolonged period, this could have a significant adverse impact on HRA balances as property costs would begin to exceed rental income. Therefore the forecast financial position is subject to annual review based on the prevailing economic factors and will also reflect the annual review of stock investment needs and estimated unit rates. The other significant risk is changes in Central Government rental policy in the future. The current programme of rent reductions ceases after the 2019/20 financial year, and it is then followed by a period of 5 years of CPI + 1% inflation, as per current Government policy. Policy thereafter is uncertain, the current assumption is CPI per annum.
125.	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

Table 15 – HRA Budget Position

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Budget Gap – February 2018	**0.00**	**3.15**	**3.42**	**3.68**	**3.68**
2018/19 Pressures	0.97	0.00	0.00	0.00	0.00
Efficiency Savings	0.00	(0.62)	(0.98)	(0.98)	(0.98)
Reduction in Contribution to Capital Funding	(0.97)	(2.53)	(2.44)	0.00	0.00
Amended Budget Gap – October 2018	0.00	0.00	0.00	2.70	2.70

	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.
126.	The HRA minimum balance will remain at £2.0M.
	STATEMENT OF THE SECTION 151 OFFICER IN ACCORDANCE WITH THE LOCAL GOVERNMENT ACT 2003 – ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES
127.	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.
128.	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.
129.	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.
130.	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.
131.	In coming to a view the S151 Officer has taken into account the risks, issues and mitigations set out in Appendix 6 – Key Financial Risks.
132.	All these risks have been rated using the council's risk assessment criteria. Key points from this assessment are detailed in paragraphs 182 to 194.
133.	There has been a sensitivity analysis carried out on the underlying assumptions contained with the MTFS Model, around inflation, interest rates and income estimates.
134.	There has been an assessment of the required General Fund Balance to meet cost pressures of unforeseen events and third party risk.
135.	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.
136.	As the 2018/19 year has progressed savings proposals have been implemented and further planning and verification of the proposals for 2019/20 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. As can be seen by the additional pressures being added back in to the MTFS as the result of non-achieved savings, it is imperative that savings plans are closely monitored and updated as needed to ensure that savings are achieved. These plans will be continuously monitored and reported throughout the coming year, but as a consequence the MTFS Reserve is still seen as key reserve to be maintained.
137.	Significant financial pressures experienced in 2018/19 have, where appropriate, been recognised in preparing the estimates included in this report, as can be seen from table 3 in paragraph 36. It is also proposed that a new earmarked reserve, specifically to address peaks in Social Care Demand, is created to help manage this pressure in future years as detailed in paragraph 65.
138.	The financial management and reporting arrangements have continued to be strengthened in the past twelve months with the continued integration of finance business partnering. Monthly monitoring reports will be made to the Council Management Team (CMT) in a timely fashion. If a forecast overspend has been identified, the Service Director is expected to develop an action plan, detailing the measures to be taken to manage the pressure. It is expected that the requirement for action plans will continue into 2019/20, with an overarching expectation that pressures arising must be accommodated within the overall service budgets.
139.	The most significant pressures impact from Social Care demand. Therefore, demand strategies for both Adult Social Care and Children's Social Care have been developed and are detailed in annexes 3 and 4 of the MTFS in Appendix 2. These demand strategies need to be regularly reviewed as part of the ongoing monitoring process and updated as necessary. These are a key factor in achieving ongoing savings in these service areas.
140.	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.
141.	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 2019/20 not only relies on further growth but also introduces a further 75% business rates retention pilot, 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.
142.	There are several significant savings proposals in future years that need to be further developed alongside a considerable budget gap to be closed by the end of the MTFS period. It is imperative that early action is taken to identify proposals to close the budget gap and to 'firm up' future years proposals identified in particular £0.90M of efficiencies to be

	achieved through implementation of major projects such as the introduction of an Enterprise Resource Platform.
143.	The MTFS also assumes that significant Better Care Funding will be replaced by alternative central government funding. Clearly this will have a major impact on the MTFS in future years if this funding is removed. This should be clarified in the Comprehensive Spending Review due in 2019.
144.	Overall the risk associated with the General Fund and the Housing Revenue Account budget is still at a high status given the quantum and complexity of savings, however these risks have been identified and mitigations put in place.
145.	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 business rates valuations; • the move to 75% Business Rates Retention; and • the implications for Britain leaving the European Union.
146.	As a result of these potential future risks it is the S151 Officer's opinion that the General Fund Balance should be maintained at £10.0M, 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 if the proposals in this report are approved.
	CIPFA RESILLIENCE INDEX
147.	In July 2018 CIPFA developed a proposal to publish an index of resilience of English councils designed to support the local government sector as it faces continued financial challenge.
148.	A first draft of the index was released to finance directors in December 2018. Following the consultation process, and planned development workshops with finance directors during 2019, a final version will be published alongside a new Financial Management Code in the Autumn of 2019.
149.	The resilience index considers: • Reserves Depletion Time – i.e. at current usage levels the number of years before reserves have been depleted: • Level of Reserves as a proportion of net revenue expenditure – this is seen to be an indication of how well an authority might be able to deal with a financial shock; • Changes in Reserves – this measures the change in reserves over the previous 3 years; • Council Budget Flexibility – this is linked to interest payments (that tend to be fixed) and social care (demand driven) both of which are difficult to control or reduce and looks at these costs as a proportion of net revenue expenditure. A high ratio may indicate a difficulty in meeting future budget constraints; and • Council Tax to Net Revenue Expenditure Ratio – this looks at the security of income to fund net revenue expenditure.
150.	The above will in due course link to the Financial Management Code and will be expected to support the section 25 Statement set out in the above paragraphs 127 to 146.
	BUDGET CONSULTATION
151.	The Council's Cabinet published their draft budget proposals for 2019/20 for public consultation on 16th October 2018. The consultation was designed to run from 17th October

	2018 to 2nd January 2019 and included proposals relating to the General Revenue Account budget. In addition to a budget consultation which set out all of our proposals, we undertook additional consultations relating to three specific budget proposals. These included: •Revising the Adult Social Care Charging policy •Future of two council-owned residential care homes •Revising service charges for tenants (Housing Revenue Account) The agreed approach for the public consultation was to use a combination of paper and online questionnaires, along with a range of stakeholder meetings for the specific consultations. The approach taken with the budget questionnaire enables an appropriate amount of explanatory and supporting information to be included in a structured way, helping to ensure that residents are aware of the background and context to each of the proposals. It is therefore considered to be the most suitable methodology for consulting on a complex issue such as the whole draft council budget, where there are a wide range of proposals. The council also wrote to key partners across the city, to make them aware and seek their views.
152.	In total 1,287 responses were received by 16th January 2019 on the budget proposals for the 2019/21 financial years. The breakdown of this by consultation is shown below: - Overall budget = 559 - Revising the Adult Social Care Charging policy = 156 - Future of two council-owned residential care homes = 380 - Revising service charges for tenants = 200 The demographic make-up of the respondents is outlined in each of the consultation reports. There was one petition on the proposals for the future of the care homes, this petition had over 1,500 signatures so triggered a discussion at full council. This discussion took place on 21st November 2018. The petition was coordinated by UNISON and had a total of 2,565 signatures to the following: 'We the undersigned petition the council to abandon its proposals to close the last two council owned residential care homes: Glen Lee and Holcroft House, and place up to 85 loyal care staff at risk of redundancy.' These documents can be viewed in full in the Members' Rooms.
153.	For the overall budget consultation proposals were grouped into themes and described in separate information sheets, which had a question asking consultees the extent to which they agreed with the group of proposals. The themes were constructed around the council's priority outcomes. The following table shows the response for each area.

	Count of respondents
Children and Young People get a good start in life: Education and Early Years (Compass School Pupil Referral Unit Funding, Early Intervention Fund, Sugar Tax - Healthy Pupils Fund)	301
Children and Young People get a good start in life: Social Care and Early Help (Review and redesign locality based early help and prevention model, Council run Play Offer, Looked After Children Contact Service)	253
People in Southampton Lead Safe, Healthy, Independent Lives: Adult Social Care and Public Health (Increasing capacity of Shared Lives scheme, Increasing capacity of Urgent Response Service)	200

People in Southampton Lead Safe, Healthy, Independent Lives: Housing (Reclassify Accommodation from 60+ to 50+ or 55+)	**194**
Strong and Sustainable Economic Growth (Charges for blue badge holders in off street car parks, Itchen Bridge fees for non-residents, Transport Review, Investment Properties)	**283**
Attractive and modern city where people are proud to live and work (Waste collection service efficiencies, Introduction of smart compactor bins)	**258**
Modern Sustainable Council (Major projects, Other service delivery and redesign proposals)	**237**
None of them, I just want to comment on the budget consultation generally	**36**

The group of proposals with the highest level of engagement was “Children and Young People get a good start in life: Education and Early Years”, closely followed by “Strong and Sustainable Economic Growth” the group with the least engagement was “People in Southampton Lead Safe, Healthy, Independent Lives: Housing”.

Issues raised in the consultation feedback

154. Each of the consultations asked respondents for feedback about any impacts the proposals may have, these impacts are summarised in each of the consultation reports.

Summary of consultation feedback

155. In total 1,287 stakeholders have engaged with the consultation process and given their views on the budget proposals. The consultation has engaged with a range of individuals through a variety of methods to allow residents and other stakeholders in Southampton to give their views on the budget proposals for 2019/20. The feedback from the consultation with residents and stakeholders has led to Cabinet making the changes outlined in the final budget position.

<u>STAFFING IMPLICATIONS</u>

156. 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.

157. Early indications are that the proposals set out in this report may result in a reduction of up to 87.31 full time equivalent (FTE) posts for the period 2019 – 2023 of which 18.33 FTE posts are currently vacant.

158.

Outcome	**FTE Post Reductions**				**Current Vacancies**
	2019/20	**2020/21**	**2021/22**	**2022/23**	
Children & Young People get a good start in life	47.00 (Children & Families)	To be quantified			8.24
People in Southampton Lead safe, healthy independent lives	3.00 (Housing)	33.26 (Adults Service)			5.58 (Adults Service) 3.00 (Housing)
A modern sustainable	1.51	0.80 (Business			1.51

council	(Business Support) 2 (ICT)	Support)			(Business Support)
TOTAL	**53.51**	**33.80**			**18.33**

159. An additional reduction in posts is anticipated in Children and Families for the period 2021 - 2023 with the specific impact to be quantified at that time.

The possible post reductions in Adults Services all relate to the proposed closure of Glen Lee care home. Options for the redeployment of the staff affected will be actively pursued within the Adults Service and, in particular, there are likely to be opportunities for care staff to be redeployed to Holcroft House, the Kentish Road respite service and the Urgent Response Service to support service users in their own homes.

Opportunities will also be explored with University Hospital Southampton NHS Foundation Trust for affected staff to be considered for NHS vacancies.

Wherever possible the reduction in posts will be managed through natural wastage, deleting vacancies and through voluntary options including voluntary redundancy, early and flexible retirement, and voluntary reductions in hours.

160. Managing the Impact

The Council has a well-established framework for managing organisational change which has been agreed with the trade unions. The Council will consult with affected staff and trade unions in accordance with our statutory obligations and will carefully consider all options put forward to minimise the impact on staff, and lessen the potential for compulsory redundancies.

EQUALITY AND SAFETY IMPACT ASSESSMENTS

161. The Equality Duty is a duty on public bodies which came into force on 5th 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.

162. While the Public Sector Equality Duty does not impose a legal requirement to conduct an Equality Impact Assessment, it does require public bodies to show how they considered the Equality Duty and that they have been consciously thinking about the aims of the Equality Duty as part of the process of decision-making. To comply with these requirements as well as the Community Safety legislation, the Council has used its existing Impact Assessment framework so that it can ensure the use of a consistent, Council wide mechanism to evidence how decision making took into account equality and safety considerations. In addition, the assessments take into account the impact on poverty and health and wellbeing.

163. Amended individual Equality and Safety Impact Assessments (ESIAs) have been completed for those proposals contained within this report and as detailed in the report that they identified require such an assessment, as they could have an impact on a particular group or individuals. The final individual ESIAs are available in Members' Rooms.

164. The individual ESIAs have been analysed to consider the cumulative impacts the budget proposals may have on particular groups and the mitigating actions that could be considered. In order to give the right perspective to the budget proposals, the Cumulative Impact Assessment has to be considered in light of the available information on the City's profile, service user and non-user information and staffing profiles as well as the proportion of the Council's budget that is currently spent on targeted groups or communities. The cumulative ESIA is available to view in the Members Rooms.

RESOURCE IMPLICATIONS	
Capital/Revenue	
165.	The capital and revenue implications are fully detailed within the report.
Property/Other	
166.	None
LEGAL IMPLICATIONS	
167.	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.
168.	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.
169.	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.
170.	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 11th March 2019 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.
171.	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.
172.	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.
173.	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.

174.	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.
175.	Further detailed legal considerations relating to the setting of a lawful budget are set out appendix 5, which Members are directed to have regard to in reaching their decision.
176.	Unless otherwise stated the proposals within this report are authorised by virtue of S.1 Localism Act 2011 or the relevant statutory power relating to the function referred to within the budget proposal. The proposals within this report relating to the Care Homes closures, Adult Social Care Charging Policy and Housing Service Charges are subject to additional legal considerations set out below and in the attached Members Room Document 5.
177.	The Care Homes proposals are set out in detail in Document in Members Room 4 and Members are directed to the legal implications set out in paragraphs 142 – 149 of that document. The proposals are brought forward in accordance with the provisions of the Care Act 2014 and having had regard to the Equality Act 2010 and the Public Sector Equality Duty under s. 149 of that Act.
178.	In relation to the Housing Revenue Account Service charges, the Council can make a change for services it provides to council tenants in addition to a charge for rent pursuant to the Housing Act 1985 and also in compliance with paragraph 2 of the Council's standard tenancy agreement. The Council is permitted to introduce new charges and vary existing charges so long as it follows the procedure set out in the Housing Act 1985 and complies with the Rent Standard and Guidance produced by Homes England. In particular any service charges must reasonable transparent and are limited to covering the actual cost for providing the services.
179.	The proposals within this report include a change in charging policy for Adult Social Care Charges. The Care Act 2014 imposes various statutory duties on Local Authorities when exercising Adult Social Care functions. S.14 of the Act permits Local Authorities to make a charge, unless specifically exempted, for meeting eligible and non-eligible needs for social care and support and for making a charge for putting in place arrangements for meeting the needs of self-funders. The statutory guidance issued under the Act and The Care and Support (Charging and Assessment of Resources) Regulations 2014 sets out how Local Authorities can make individual charges following financial assessments. Any charges made must be reasonable practicable and affordable for any individual to pay. All charges must be clear and transparent and should apply equally so that those will similar needs or services are treated the same and minimise anomalies between different care settings. Any charges made must be sustainable for Local Authorities in the long-term. The Document in Members' Rooms sets out further commentary on how these duties will be met and need assessed when setting charges going forward in accordance with the Act.
<u>Other Legal Implications</u>	

180.	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.
181.	Local Authorities have a duty under the Human Rights Act 1998, when carrying out any function, not to act incompatibly with rights under the European Convention for the Protection of Fundamental Rights and Freedoms. In particular Article 2 The right to life shall be protected in law, Article 8, the right to respect for private and family life and Article 25 the rights of elderly to lead a life of dignity and independence and to participate in social and cultural life. In reaching a decision on the proposals contained in this report the Council must have regard to the provisions of the Equality Act 2010, in particular s.149, the Public sector equality duty. The duty provides that: (1) A public authority must, in the exercise of its functions, have due regard to the need to— (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act; (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it. Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to— (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic; (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it; (c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low. Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to— (a) tackle prejudice, and (b) promote understanding. The relevant protected characteristics are— age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex;

	sexual orientation.
RISK MANAGEMENT IMPLICATIONS	
182.	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.
183.	Alongside the risks identified when setting the budget for 2019/20 a number of items have arisen since this time that may need to be addressed outside of those assumptions. Currently those main issues are: • Southampton's joint bid with Portsmouth and the Isle of Wight to become a pool pilot in 2019/20 for 75% 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; and • High Needs Funding – due to increasing pupil numbers within special schools and the associated cost of Home to School transport, there is likely to be an ongoing financial pressure. In this financial year this pressure will be mitigated using additional DSG and SEN funding that has been announced and additional allocations agreed with the Schools Forum. A review is to be undertaken of the entire Education Service provided by the Council to identify options to the meet the remaining funding gap. • Business Rate Growth Rebaselining – will be undertaken as part of Business Rate Retention changes that will result in business rates baselines being realigned. This could impact on future year's levels of business rate income for the council. The council has achieved significant growth in business rates since the last baselining and will potentially result in some of this growth being removed from the baseline. Provision has been made within the Taxation Reserve for loss of business rate income but it is recommended that when closing the accounts for 2018/19 that priority be given to increasing this reserve to provide additional funding to meet this risk. • Funding implications following the new Comprehensive Spending Review. A spending review is due in 2019. Additionally, it is also not known whether this will just be for one year, or for the next 3 to 5 years. The timing and content will depend on Britain's Exit from the European Union. The shorter the spending review period, the more uncertainty there is around funding assumptions.
184.	The Financial Risk Register is attached as appendix 6.
	Potential Impact of Britain's Exit from the EU
185.	The vote on the deal for Britain's exit from the EU was held on the 15th January 2019 with a further vote on the 29th following an initial rejection of the deal. Further uncertainty surrounds what will happen next.
186.	The MHCLG have been working with Local Authorities to establish protocols for a No Deal Exit should this occur. MHCLG have created a virtual team of 9 LA Chief executives representing the regions to consider issues facing Councils and how to deal with them.

187.	Workshops have been held around the country, with more planned, to develop and understanding of the likely impact on Local Government.
188.	Various reference papers have been released on the Gov.uk website and will be pulled together in one “landing page”.
189.	The council is undertaking its own resilience planning and part of which is the development of a No Deal Risk Log for all services. This will be reviewed an updated as necessary with actions identified to mitigate the impact on the council.
190.	The longer-term risks of Brexit in any form are not yet fully understood, and full analysis cannot be undertaken until Parliament has finalised the national policy position.
191.	A number of short term risks (within 90 days) have been identified that may impact the Council should a ‘no deal’ scenario happen. A separate report will be submitted to Cabinet on the issues and risks of Britain’s withdrawal from the European Union and the mitigations that can be put in place. The risks include: • Traffic disruption arising from delays at the Port of Portsmouth and extending along the strategic road network; • Prolonged (rather than severe) congestion in and around Southampton, affecting staff travel and service delivery; • Additional traffic impact of current major highways schemes in Millbrook and Redbridge; • Shortage of vaccines and medicines, and associated health impacts; • New Port Health IT system not being operational; • Impact on HWRCs and recycling banks if there are delays to exporting materials, with increased risk of fly tipping; • Fuel supplies at City Depot; • Rumours of shortages of food, fuel and medicines resulting in panic buying; and • Simultaneous severe weather events. It is expected that most of these risks for the Southampton area can be mitigated through known methods used during contingencies such as severe weather events.
192.	Longer-term risks of a no deal exit from the European Union in any form for Southampton include the following: • The general effects of economic shock, disruption or downturn on Southampton; • Failure of care providers due to economic shock; • Fall in the value of the pound increasing the cost of supplies; • Impact of reduced consumer activity on major businesses such as Port of Southampton and Hammerson; • Impact on Council finances of lower business rates yield; • EU nationals electing not to stay in the UK (NB approximately 60 within the Council and unknown impact on service providers to SCC); • Specific risk of shortage of workers in certain sectors e.g. social care workers and LGV drivers; • Community tensions and political instability/uncertainty; and • Distraction of Government from normal business. After the initial no-deal period – or following confirmation that no-deal is not happening – a full project will be put in place to manage these longer-term impacts.

193.	It was announced on the 28th January 2019 that local authorities across England will receive a share of £56.5M to help support their preparations for leaving the European Union (EU). Councils will receive a share of £20M this financial year (2018/19) and £20M in 2019/20 to spend on planning and strengthening their resources. A further £10M will be available in the 2019/20. This funding is intended to help local authorities with specific costs which may arise following leaving the EU. £1.5M will be allocated in 2018/19 only to local authorities facing immediate impacts from local ports, with the decision on the allocation and distribution of that funding to be announced shortly. A further £5M will be split by teams in the Ministry of Housing, Communities and Local Government, local authorities, and Local Resilience Forums for specific purposes such as strengthening preparations and supporting communities. The funding will help councils to adapt to the changes caused by leaving the EU, ensuring their local authority is prepared ahead of 29th March, whilst also protecting vital local services. Councils will decide how to allocate their funding. It is expected that money will be spent on resources like recruiting extra staff to ensure councils have the capacity to provide timely and accurate information to residents.
194.	No funding has been identified as yet to help Council's should a no deal scenario occur.
POLICY FRAMEWORK IMPLICATIONS	
195.	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 2019/20 must be proposed by the Cabinet for consideration by the full council under the Constitution.

KEY DECISION?	**No save for Cabinet Recommendation (v)**
WARDS/COMMUNITIES AFFECTED:	**All**

SUPPORTING DOCUMENTATION

Appendices

1.	Outcome Financial Appendices
2.	Medium Term Financial Strategy 2019/20 to 2022/23
3.	2019/20 Council Tax Calculation
4.	2019/20 Council Tax Precept 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

Documents In Members' Rooms

1.	Updated ESIA's

2.	Cumulative Impact Assessment
3.	Overall Budget – Consultation Response
4.	Future of Residential Care Homes – Consultation Response & Further Details
5.	Adults Social Care – Charging Policy – Consultation Response & Further Details
6.	HRA – Service Charges – Consultation Response & Further Details
7.	Revised Adult Social Care Charging Policy

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 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.		