

<b>DECISION-MAKER:</b>	CABINET COUNCIL
<b>SUBJECT:</b>	THE 2025/26 BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY
<b>DATE OF DECISION:</b>	25 FEBRUARY 2025 (CABINET) 26 FEBRUARY 2025 (COUNCIL)
<b>REPORT OF:</b>	COUNCILLOR LETTS DEPUTY LEADER AND CABINET MEMBER FOR FINANCE AND CORPORATE SERVICES

<b><u>CONTACT DETAILS</u></b>			
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<b>STATEMENT OF CONFIDENTIALITY</b>
Not Applicable

<b>EXECUTIVE SUMMARY</b>
<p>This report outlines the revenue budget for 2025/26 and the Medium-Term Financial Strategy (MTFS) for the period from 2024/25 to 2028/29. It provides the necessary details for the Council to determine the council tax charge for 2025/26. A separate report, which details the Capital Programme for 2024/25 to 2029/30, including the Capital Strategy, is also included on this agenda. Additionally, a distinct report addresses the Housing Revenue Account (HRA) Budget for 2025/26 and the Housing Capital Programme for 2024/25 to 2029/30.</p> <p>This report proposes a balanced budget, without utilising risk reserves or exceptional financial support and demonstrates the council living within its financial means for day to day expenditure. This is achieved through significant transformation savings built into budgets, additional central government funding and the continued culture of each directorate maintaining spending within their cash limited budgets.</p> <p>The Council has requested an extension of EFS into 2025/26 to use unused components from the 2024/25 EFS. Although the 2025/26 budget is balanced without EFS, it will be needed for costs such as equal pay, transformation, and restructuring.</p> <p>The proposed Council Tax for 2025/26 includes a 2.99% increase in core council tax and a 2.00% rise in the Adult Social Care precept, both within allowable limits without requiring a referendum.</p>

The report includes the statutory Section 25 Statements from the Chief Finance Officer on the robustness of the estimates and adequacy of reserves.

**RECOMMENDATIONS:**

**CABINET**

**GENERAL FUND REVENUE**

To recommend to Council:

	i)	Have regard to the Statement of the S151 Officer as set out in paragraphs 94 to 106 on the robustness of the budget and the adequacy of the council's reserves, when approving the following recommendations.
	ii)	The 5 year Medium-Term Financial Strategy 2024/25 to 2028/29 as set out in table 1 and appendix 1.
	iii)	The Revenue Budget for 2025/26 as set out in tables 3 and 4 and Appendices 1 and 2.
	iv)	The inclusion in the budget General Fund pressures totalling £12.72M in 2025/26, increasing to £23.34M in 2028/29, as detailed in paragraph 36.
	v)	The inclusion of commitments totalling £1.98M in 2025/26, increasing to £10.40M in 2028/29, as detailed in paragraph 38.
	vi)	The inclusion of savings proposals (including increases to ring-fenced grants) totalling £49.60M in the 2025/26 General Fund Revenue Budget, of which £34.56M relate to the Transformation Programme, increasing to £66.16M in 2028/29, of which £50.82M relate to the Transformation Programme, as detailed in paragraphs 40 to 43.
	vii)	An increase in the 'core' council tax of 2.99% and an increase in the Adult Social Care precept of 2.00%, allowable under general powers to increase council tax without a referendum.
	viii)	A Band D Council Tax for Southampton City Council of £1,903.14 for 2025/26, a Net Budget Requirement of £230.78M and the Council Tax Requirement for 2025/26 at £128.17M as per Appendix 6. The Council Tax increase comprises a core increase of 2.99% and 2.00% specifically for Adult Social Care.
	ix)	A change to fees and charges policy and note the new charges as set out in paragraph 64 to 67 and Appendix 9.
		<b>Other Recommendations</b>
	x)	Approve the Procurement Forward Plan for 2025/26 contained at Appendix 10.
	xi)	Delegate authority to the relevant Executive Director, after consultation with the relevant Cabinet Member(s), to take all actions necessary to enter into all contracts contained in the Procurement Forward Plan for 2025/26 at Appendix 10 for the contract duration stated including any contractually permitted extension options. Providing that this is within the budget envelope available for the contract for the projects contained in the Procurement Forward Plan 2025/26 at Appendix 10.

	xii)	Note the indicative Procurement Pipeline for the years 2026/27 and 2027/28 contained at Appendix 11.
<b>COUNCIL</b>		
Council is recommended to:		
	i)	Have regard to the Statement of the S151 Officer as set out in paragraphs 94 to 106 on the robustness of the budget and the adequacy of the council's reserves.
	ii)	Approve the revised balanced Medium Term Financial Strategy (MTFS) for the period 2024/25 to 2028/29 as set out in Table 1 and Appendix 1.
	iii)	Approve the 2025/26 General Fund Revenue Budget as set out in Tables 3 and 4 and Appendices 1 and 2.
	iv)	Approve an increase in the 'core' council tax of 2.99% and an increase in the Adult Social Care precept of 2.00%, allowable under general powers to increase council tax without a referendum.
	v)	Approve additional General Fund pressures totalling £12.72M in 2025/26, increasing to £23.34M in 2028/29, as detailed in paragraph 36.
	vi)	Approve the new commitments totalling £1.98M in 2025/26, increasing to £10.40M in 2028/29, as detailed in paragraph 38.
	vii)	Approve savings proposals (including increases to ring-fenced grants) totalling £49.60M that are included in the 2025/26 General Fund Revenue Budget, of which £34.52M relate to the Transformation Programme, increasing to £66.16M in 2028/29, of which £50.82M relate to the Transformation Programme, as detailed in paragraphs 40 to 43.
	viii)	Delegate authority to the Executive Director Enabling Services & Section 151 Officer, following consultation with the Cabinet Member for Finance and Corporate Services, to do anything necessary to give effect to the proposals contained in this report.
	ix)	Set the Band D Council Tax for Southampton City Council at £1,903.14 for 2025/26, a Net Budget Requirement of £230.78M and the Council Tax Requirement for 2025/26 at £128.17M as per Appendix 6.
	x)	Delegate authority to the Executive Director Enabling Services and S151 Officer to implement any variation to the overall council tax arising from the final notification of the Hampshire and Isle of Wight Police and Crime Commissioner precept.
	xi)	Approve the change to fees and charges policy and note the new charges as set out in paragraph 64 and 67 and Appendix 9.
	xii)	Agree the Procurement Forward Plan for 2025/26 and the indicative Procurement Pipeline for the years 2026/27 and 2027/28 contained at Appendices 10 and 11 respectively.
	xiii)	Delegate authority to the relevant Executive Director, after consultation with the relevant Cabinet Member(s), to take all actions necessary to enter into all contracts contained in the Procurement Forward Plan for 2025/26 at Appendix 10 for the contract duration stated including any contractually permitted extension options, providing that this is within the budget envelope available

		for the contract for the projects contained in the Procurement Forward Plan 2025/26 at Appendix 10.
	xiv)	<p>Agree that the following amounts be now calculated by the council for the financial year 2025/26 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992; and determine in accordance with Section 52ZB of the Act that the council's relevant basic amount of council tax for 2025/26 is not excessive in accordance with principles approved by the Secretary of State under Section 52ZC of the Act.</p> <p>a) <b>£668,150,284</b> (being the aggregate of the amounts which the council estimates for the items set out in Section 31A(2) of the Act).</p> <p>b) <b>£539,983,321</b> (being the aggregate of the amounts which the council estimates for the items set out in Section 31A(3) of the Act).</p> <p>c) <b>£128,166,963</b> (being the amount by which the aggregate at (a) above exceeds the aggregate at (b) above, calculated in accordance with Section 31A(4) of the Act as its Council Tax Requirement for the year). (Item R in the formula in Section 31B(1) of the Act).</p> <p><b>£1,903.14</b> (being the amount at (c) above (Item R), all divided by the tax base of 67,345 (Item T), calculated by the council, in accordance with Section 31B(1) of the Act, as the basic amount of its council Tax for the year).</p>

#### **REASONS FOR REPORT RECOMMENDATIONS**

1. The Council's Constitution requires Full Council to set Council Tax and agree the Budget for the forthcoming financial year. .

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

2. Alternative options for revenue spending and savings have been considered in formulating these budget proposals. The Council has a duty to set a balanced budget by 11 March. Council may consider different savings proposals as far as they comply with the delivery of the council's statutory duties and ensure that the council tax can be set by balancing the overall budget. It is important to note that the Council decision is to set Council Tax whereas implementation of the budget is an executive function for the Leader and Cabinet.

#### **INTRODUCTION**

3. The priority this year has been to address the underlying budget deficit evidenced by the need for Exceptional Financial Support (EFS) to support the budget for 2024/25. Significant progress has been made during the year to reduce reliance on EFS and to be able to set a balanced budget for 2025/26.
4. Early in 2024/25 the council established a comprehensive transformation programme adapt | grow | thrive aimed at modernising service delivery whilst putting the council back on a sustainable financial footing. Transformation savings are a major contributor to reducing reliance on EFS in 2024/25 and are key to balancing the coming year and medium term financial position.
5. In the longer term the council remains ambitious to create economic prosperity through growth and generate additional council tax and business rates income which provides a route to maintaining a balanced budget over the medium term.
6. The 2025/26 General Fund revenue budget is based on a council tax increase of 4.99%, being 2.99% for 'core' council tax and 2.00% for the adult social care precept,

	in line with the referendum limits set by the government. The final council tax bills will include precepts made by the Hampshire and Isle of Wight Police and Crime Commissioner and the Hampshire and Isle of Wight Fire and Rescue Authority, which impacts on the final charge. Hence, the final increase residents see on their bills will differ from the 4.99% charge from Southampton City Council.
7.	This equates to the Band D Council Tax for Southampton City Council at £1,903.14 for 2025/26, a Net Budget Requirement of £230.78M and the Council Tax Requirement for 2025/26 of £128.17M.
	<b><u>NATIONAL FUNDING CHANGES</u></b>
	<b><u>Autumn Budget 2024</u></b>
8.	The government published its Autumn Budget 2024 “fixing the foundations to deliver change” on 30 October 2024. For local government, this included a real terms increase in Core Spending Power (+3.2%) and £1.3Bn of additional grant funding for 2025/26. Increases in grants outside of Core Spending Power were also announced, including £1Bn more for special educational needs and disabilities and a £233M increase in homelessness funding. The Budget confirmed local government funding reform and multi-year settlements would apply from 2026/27.
9.	Further details of the Autumn Budget are provided in the Medium-Term Financial Strategy (MTFS) (Appendix 1).
	<b><u>Local Government Finance Policy Statement and Settlement</u></b>
10.	On 28 November 2024 the government published a policy statement outlining its intentions for the 2025/26 local government finance settlement.
11.	The policy statement confirmed local authorities with social care responsibilities could apply an increase in core council tax of up to 3% and an increase in the adult social care precept of up to 2% for 2025/26.
12.	Two new grants were announced in the policy statement – a targeted Recovery Grant and a Children’s Social Care Prevention Grant – as well as increased funding for the Social Care Grant. Services Grant and Rural Services Delivery Grant will not continue, with the funding repurposed into the new Recovery Grant. The statement confirmed the basis for uprating Revenue Support Grant and baseline funding levels and that the New Homes Bonus scheme would continue for one more year.
13.	The 2025/26 provisional local government finance settlement was announced on 18 December 2024, providing details of the allocation of grants within Core Spending Power. The new Recovery Grant has been allocated using a formula that focusses resources on authorities that have high levels of deprivation and relatively lower council tax income, which includes Southampton City Council. Funding for local authorities’ increase in employer’s national insurance contributions announced in the Autumn Budget was confirmed at provisional settlement, with individual local authority allocations notified in the final settlement. The final settlement was published on 3 February 2025.
14.	A consultation on the objectives and principles of local authority funding reform were published alongside the provisional settlement.
15.	Further details of the local government finance policy statement and settlement are provided in the Medium-Term Financial Strategy (Appendix 1).

	<b><u>Devolution and Local Government Reorganisation</u></b>
16.	<p>The Ministry of Housing, Communities and Local Government (MHCLG) published a white paper on devolution on 16 December 2024. In January 2025 alongside Hampshire, Isle of Wight, and Portsmouth councils Southampton City Council submitted a joint expression of interest to be included on the priority programme for devolution. If successful, and following a public consultation and formal approval by Council, this programme will create a Mayoral Combined Authority covering the geography of the four councils, with Mayoral elections taking place in May 2026.</p> <p>The combined authority would give more decision-making powers and funding to locally elected representatives. Individual councils will still continue to deliver the same services but will be able to work together on big infrastructure and transport projects, planning and housebuilding initiatives, and skills and employment programmes.</p> <p>On 5 February 2025 the government announced that the Hampshire &amp; Solent area has been successful in joining the devolution priority programme.</p>
	<b><u>Other issues affecting the MTFS</u></b>
	<b><u>Strategic Plans &amp; Transformation</u></b>
17.	<p>The Council has agreed the multi-year adapt   grow   thrive transformation strategy setting out 28 priority programmes to modernise and improve the organisation. Included in the adapt   grow   thrive plan is a commitment to work with partners to develop a new City Plan for the city of Southampton. Once the City Plan is finalised and adopted, a new Council Plan will be developed to align the council's priorities with achieving these missions and delivering its statutory duties. The new Council Plan will form a focused 'golden thread' for the organisation, reflecting the adapt   grow   thrive transformation programme and the future improvement needs of the council, including the outcomes of the LGA Corporate Peer Challenge held in January 2025. The new City Plan is expected to be agreed by partners and the council in the early part of the 2025/26 financial year with the new Corporate Plan following that.</p>
18.	<p>Further details on the savings being achieved through the transformation programme are included at paragraph 40 and a report providing an update on the transformation programme is provided to Cabinet on 25 February 2025.</p>
19.	<p>Other new issues affecting the MTFS include the government's devolution white paper and revised national planning policy framework, both published in December 2024.</p>
20.	<p>Further details are provided in the Medium-Term Financial Strategy (MTFS) (Appendix 1).</p>
	<b><u>MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2024/25 to 2028/29</u></b>
21.	<p>The MTFS sets the strategic financial vision of the council. That is, we will invest with purpose in services and assets to improve residents' lives whilst growing the city and ensuring financial sustainability for the council.</p> <p>Our focus will be on:</p> <ul style="list-style-type: none"> <li>• reducing demand by boosting early intervention and strengths-based practice across all services;</li> <li>• increasing productivity &amp; growth of the city;</li> <li>• creating market opportunities;</li> </ul>

	<ul style="list-style-type: none"> <li>• using minimal modern and fit for purpose council assets;</li> <li>• provide high-performing, mid cost services; and</li> <li>• foster a diverse economy; and</li> <li>• actively engage residents in the delivery process</li> </ul> <p>The MTFs provides the strategic financial framework within which financial stability can be achieved and sustained in the medium term to deliver the council's key strategic priorities and services. The focus this year has been to address the budget deficit through the transformation programme and put the council back on a sounder financial footing.</p>																																																						
22.	Table 1 below summarises the council's MTFs for the five years to 2028/29, starting with the 2024/25 budget approved in March 2024 as the base. Further details are provided in Appendix 1, including the assumptions made in the medium-term financial forecast.																																																						
23.	The MTFs shows a balanced position for 2025/26 to 2028/29, with the final 2 years dependent on achieving additional council tax and business rates income through city growth, to aid in achieving this growth an investment in regeneration of the city has been included in the capital strategy elsewhere on the agenda.																																																						
24.	<p><u>Table 1 – Summary MTFs 2024/25 to 2028/29</u></p> <table border="1"> <thead> <tr> <th></th> <th>Approved 2024/25 Budget £M</th> <th>2025/26 Budget £M</th> <th>2026/27 Budget £M</th> <th>2027/28 Budget £M</th> <th>2028/29 Budget £M</th> </tr> </thead> <tbody> <tr> <td>Net Revenue Expenditure</td> <td>278.52</td> <td>230.78</td> <td>236.10</td> <td>247.69</td> <td>258.56</td> </tr> <tr> <td>Funding</td> <td>(239.24)</td> <td>(230.78)</td> <td>(236.10)</td> <td>(247.69)</td> <td>(258.56)</td> </tr> <tr> <td><b>(Surplus)/Deficit</b></td> <td><b>39.28</b></td> <td><b>(0.00)</b></td> <td><b>(0.00)</b></td> <td><b>(0.00)</b></td> <td><b>(0.00)</b></td> </tr> <tr> <td>Exceptional Financial Support (EFS)</td> <td>(39.28)</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td><b>(Surplus)/Deficit (after EFS)</b></td> <td><b>39.28</b></td> <td><b>(0.00)</b></td> <td><b>(0.00)</b></td> <td><b>(0.00)</b></td> <td><b>(0.00)</b></td> </tr> </tbody> </table>		Approved 2024/25 Budget £M	2025/26 Budget £M	2026/27 Budget £M	2027/28 Budget £M	2028/29 Budget £M	Net Revenue Expenditure	278.52	230.78	236.10	247.69	258.56	Funding	(239.24)	(230.78)	(236.10)	(247.69)	(258.56)	<b>(Surplus)/Deficit</b>	<b>39.28</b>	<b>(0.00)</b>	<b>(0.00)</b>	<b>(0.00)</b>	<b>(0.00)</b>	Exceptional Financial Support (EFS)	(39.28)	0.00	0.00	0.00	0.00	<b>(Surplus)/Deficit (after EFS)</b>	<b>39.28</b>	<b>(0.00)</b>	<b>(0.00)</b>	<b>(0.00)</b>	<b>(0.00)</b>																		
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27.	Table 3 summaries the movements from the 2024/25 approved budget agreed in March 2024 to get to the 2025/26 budget.																																																						
28.	<u>Table 3 – 2025/26 Summary General Fund Revenue Budget</u>																																																						

	Approved 2024/25 Budget	Pay and Price Inflation	Pressures and Commitments	Transformation Savings	Other Savings	Other Amendments	2025/26 Budget
	£M	£M	£M	£M	£M	£M	£M
Directorate Expenditure	253.72	5.93	2.59	(34.36)	(14.12)	(14.01)	199.75
Capital Asset Management	12.86	0.10	9.51	(0.25)	0.13	0.00	22.35
Other Expenditure & Income (including central contingency, levies and contributions)	7.95	0.00	2.55	0.09	0.01	(4.31)	6.28
Movement in Reserves and Balances	4.00	0.00	0.00	0.00	0.00	(1.60)	2.40
<b>Net Revenue Expenditure</b>	<b>278.52</b>	<b>6.03</b>	<b>14.64</b>	<b>(34.52)</b>	<b>(13.97)</b>	<b>(19.92)</b>	<b>230.78</b>
<b>Funding</b>							
Council Tax	(120.44)	0.00	0.06	0.00	(1.10)	(6.22)	(127.71)
Business Rates	(54.45)	0.00	0.00	0.00	0.00	(0.74)	(55.19)
Revenue Support Grant	(13.73)	0.00	0.00	0.00	0.00	(0.37)	(14.10)
Non-Specific Government Grants & Other Funding	(50.62)	0.00	0.00	0.00	0.00	16.84	(33.78)
<b>Total Funding</b>	<b>(239.24)</b>	<b>0.00</b>	<b>0.06</b>	<b>0.00</b>	<b>(1.10)</b>	<b>9.51</b>	<b>(230.78)</b>
<b>(Surplus)/Deficit</b>	<b>39.28</b>	<b>6.03</b>	<b>14.70</b>	<b>(34.52)</b>	<b>(15.07)</b>	<b>(10.42)</b>	<b>(0.00)</b>
<b>Exceptional Financial Support (EFS)</b>	<b>(39.28)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>39.28</b>	<b>0.00</b>
<b>(Surplus)/Deficit (after EFS)</b>	<b>(0.00)</b>	<b>6.03</b>	<b>14.70</b>	<b>(34.52)</b>	<b>(15.07)</b>	<b>28.86</b>	<b>(0.00)</b>

29. The movements between the 2024/25 approved budget and 2025/26 budget for directorates are summarised in table 4 below, with further details in Appendix 2.

30. Table 4 – 2025/26 Directorate Budgets

	Approved 2024/25 Budget	Pay and Price Inflation	Pressures and Commitments	Transformation Savings	Other Savings	Other Amendments	2025/26 Budget
	£M	£M	£M	£M	£M	£M	£M
Children & Learning	61.78	0.00	0.76	(7.12)	(4.48)	(9.66)	41.29
Community Wellbeing	97.66	0.00	0.72	(14.04)	(5.34)	(15.19)	63.82
Enabling Services	26.52	0.00	0.66	(0.43)	(0.09)	(0.25)	26.40
Growth & Prosperity	39.07	0.00	1.11	(5.60)	(0.03)	0.38	34.93
Resident Services	24.75	0.00	(0.66)	(6.98)	(4.02)	2.62	15.71
Strategy & Performance	3.93	0.00	0.00	(0.20)	(0.16)	1.59	5.17
Inflation	(0.00)	5.93	0.00	0.00	0.00	6.49	12.43
<b>Directorate Expenditure</b>	<b>253.72</b>	<b>5.93</b>	<b>2.59</b>	<b>(34.36)</b>	<b>(14.12)</b>	<b>(14.01)</b>	<b>199.75</b>

31. Other amendments include virements between directorates and/or centrally held budgets. This includes the change required to the accounting treatment of the social care grant as it is now classified as a specific government grant so is reflected in service budgets rather than in the general grants line. The movements are £24.3M Social Care Grant income budget from Non-Specific Government Grants to Children & Learning (£9.5M credit) and Community Wellbeing (£14.8M credit).

32. Movements since the Quarter 2 MTFS Update provided to Cabinet in October 2024 are summarised in Table 5 below.



33. Table 5 – Movements since the Q2 MTFS Update

	2025/26	2026/27	2027/28	2028/29
	£M	£M	£M	£M
<b>Forecast Budget Shortfall Oct 2024</b>	<b>18.23</b>	<b>21.08</b>	<b>23.45</b>	<b>23.84</b>
Pay and Price Inflation (including employer's NICs increase)	5.93	6.35	7.03	8.61
Budget Pressures	(0.59)	2.13	2.22	2.22
Executive Commitments	1.14	2.93	4.07	4.73
Transformation Savings	(4.65)	(10.64)	(11.56)	(12.27)
Increases to ring-fenced grants	(9.18)	(11.68)	(11.68)	(11.68)
Other Savings	(3.12)	(2.04)	(2.04)	(2.04)
Centrally Held Funding	(8.28)	(8.04)	(8.68)	(8.90)
Other MTFS Amendments	0.50	(0.10)	(0.10)	(0.10)
Council Tax and Business Rates Growth Target			(2.72)	(4.43)
<b>Revised Budget Shortfall</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

**Pay and Price Inflation**

34. For 2025/26 a

- 2% pay award has been assumed and budget provided for within the central inflation budget.
- £1.5M has been included within the central inflation budget for contract inflation
- and £4.7M for adults and children's social care provider uplifts.
- £3.5M has been included for the estimated direct cost of the increase in employer's national insurance contributions announced in the Autumn Budget 2024.
- No changes to the existing 16.8% local government pension scheme employer contribution rate have been assumed in the MTFS.

**Pressures and Commitments**

35. Table 6 summarises budget pressures that have been included in the MTFS, not including the inflationary pressures which are outlined at paragraph 34 above. The budget pressures are mainly due to demographic factors and continuing high demand for council services, higher financing costs, borrowing costs from using Exceptional Financial Support (EFS) and revenue consequences of the transformation programme. Details of the budget pressures are provided in Appendix 3.

36. Table 6 – Summary of budget pressures

	2025/26	2026/27	2027/28	2028/29
	£M	£M	£M	£M
Children & Learning	0.76	0.20	0.20	0.20
Community Wellbeing	0.72	1.44	2.16	2.88
Enabling Services	0.66	0.93	1.03	1.03
Growth & Prosperity	1.11	2.95	4.83	6.65
Resident Services	(0.38)	1.87	1.87	1.87
Strategy & Performance	0.00	0.00	0.00	0.00
Centrally Held Budgets - Borrowing Costs	7.31	8.15	8.15	8.15
Centrally Held Budgets - Other	2.55	2.55	2.55	2.55
<b>Total Budget Pressures</b>	<b>12.72</b>	<b>18.10</b>	<b>20.79</b>	<b>23.34</b>

37.	Commitments over the MTFS period are summarised in Table 7, with details provided in Appendix 4. These primarily relate to the capital financing costs from additions to the capital programme, including changes agreed in previous years (see the Capital Strategy report for further details).																																																		
38.	<p><u>Table 7 - Summary of commitments</u></p> <table border="1"> <thead> <tr> <th></th> <th>2025/26</th> <th>2026/27</th> <th>2027/28</th> <th>2028/29</th> </tr> <tr> <th></th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td>Resident Services</td> <td>(0.28)</td> <td>(0.28)</td> <td>(0.28)</td> <td>(0.28)</td> </tr> <tr> <td>Centrally Held Budgets</td> <td>2.26</td> <td>5.72</td> <td>8.44</td> <td>10.68</td> </tr> <tr> <td><b>Total Commitments</b></td> <td><b>1.98</b></td> <td><b>5.44</b></td> <td><b>8.16</b></td> <td><b>10.40</b></td> </tr> </tbody> </table>		2025/26	2026/27	2027/28	2028/29		£M	£M	£M	£M	Resident Services	(0.28)	(0.28)	(0.28)	(0.28)	Centrally Held Budgets	2.26	5.72	8.44	10.68	<b>Total Commitments</b>	<b>1.98</b>	<b>5.44</b>	<b>8.16</b>	<b>10.40</b>																									
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39.	A borrowing rate of 5.0% for 2025/26 and ongoing has been assumed within the MTFS.																																																		
	<b><u>Savings</u></b>																																																		
40.	The council's transformation programme is expected to generate savings of £34.5M in 2025/26 rising to £50.8M by 2028/29. Table 8 summarises the transformation savings included in the medium-term financial forecast by directorate. Further details including the breakdown by portfolio are in the Transformation Programme Update to Cabinet on 25 February 2025.																																																		
41.	<p><u>Table 8 – Transformation savings</u></p> <table border="1"> <thead> <tr> <th></th> <th>2025/26</th> <th>2026/27</th> <th>2027/28</th> <th>2028/29</th> </tr> <tr> <th></th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td>Children &amp; Learning</td> <td>(7.12)</td> <td>(9.67)</td> <td>(9.67)</td> <td>(9.67)</td> </tr> <tr> <td>Community Wellbeing</td> <td>(14.04)</td> <td>(17.55)</td> <td>(17.55)</td> <td>(17.55)</td> </tr> <tr> <td>Enabling Services</td> <td>(0.43)</td> <td>(0.90)</td> <td>(0.90)</td> <td>(0.90)</td> </tr> <tr> <td>Growth &amp; Prosperity</td> <td>(5.60)</td> <td>(9.27)</td> <td>(10.58)</td> <td>(10.58)</td> </tr> <tr> <td>Resident Services</td> <td>(6.98)</td> <td>(9.93)</td> <td>(10.86)</td> <td>(11.66)</td> </tr> <tr> <td>Strategy &amp; Performance</td> <td>(0.20)</td> <td>(0.20)</td> <td>(0.20)</td> <td>(0.20)</td> </tr> <tr> <td>Centrally Held Budgets</td> <td>(0.16)</td> <td>(0.25)</td> <td>(0.25)</td> <td>(0.25)</td> </tr> <tr> <td><b>Total Transformation Savings</b></td> <td><b>(34.52)</b></td> <td><b>(47.78)</b></td> <td><b>(50.02)</b></td> <td><b>(50.82)</b></td> </tr> </tbody> </table>		2025/26	2026/27	2027/28	2028/29		£M	£M	£M	£M	Children & Learning	(7.12)	(9.67)	(9.67)	(9.67)	Community Wellbeing	(14.04)	(17.55)	(17.55)	(17.55)	Enabling Services	(0.43)	(0.90)	(0.90)	(0.90)	Growth & Prosperity	(5.60)	(9.27)	(10.58)	(10.58)	Resident Services	(6.98)	(9.93)	(10.86)	(11.66)	Strategy & Performance	(0.20)	(0.20)	(0.20)	(0.20)	Centrally Held Budgets	(0.16)	(0.25)	(0.25)	(0.25)	<b>Total Transformation Savings</b>	<b>(34.52)</b>	<b>(47.78)</b>	<b>(50.02)</b>	<b>(50.82)</b>
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42.	Table 9 summarises other savings proposals included in the MTFS, with details in Appendix 5. A positive amount indicates savings ending or being removed/reduced. These savings arise from the ongoing effect of underspends in 2024/25, efficiencies and other measures. They include £7.3M of increases to ring-fenced grants in 2025/26 which form part of service budgets. Further details on grant increases are provided in paragraph 56 to 61 below.																																																		
43.	<u>Table 9 – Other savings and changes to service specific grants</u>																																																		

	2025/26	2026/27	2027/28	2028/29
	£M	£M	£M	£M
Children & Learning	(4.48)	(4.40)	(4.36)	(4.36)
Community Wellbeing	(5.34)	(5.34)	(5.34)	(5.34)
Enabling Services	(0.09)	0.39	0.39	0.39
Growth & Prosperity	(0.03)	0.02	0.06	0.06
Resident Services	(4.02)	(5.52)	(5.32)	(5.32)
Strategy & Performance	(0.16)	(0.16)	(0.16)	(0.16)
Centrally Held Budgets	(0.96)	(0.69)	(0.61)	(0.61)
<b>Total Other Savings</b>	<b>(15.07)</b>	<b>(15.70)</b>	<b>(15.34)</b>	<b>(15.34)</b>

There is currently one saving proposal still in consultation, lane rental charges (£0.03M), this is contained within the Growth and Prosperity line. If the outcome of the consultation requires the saving to be removed it will be replaced by alternatives or a call on the council's reserves in 2025/26.

## **RESERVES**

### **Balances and earmarked revenue reserves**

44. The General Fund Balance has been increased in 2024/25 from £10.1M to £12.0M in line with the CIPFA recommended minimum of 5% of net revenue expenditure and it is considered appropriate to maintain it at this level for 2025/26.

45. Earmarked reserves (excluding schools' balances) totalled £40.6M at the end of 2023/24 and are forecast to be £38.5M at the end of 2024/25, after taking account of the use of £4.2M of ring-fenced revenue grants that were carried forward via reserves. The MTFS includes the setting aside of sums to rebuild reserves over time. Table 10 summarises the budgeted contributions to reserves in each year of the medium-term financial forecast.

46. Table 10 – Planned contributions to earmarked revenue reserves

	2025/26	2026/27	2027/28	2028/29
	£M	£M	£M	£M
Budgeted contributions to reserves	2.40	5.88	7.32	7.32

47. With the planned contributions noted above, earmarked reserves (excluding schools' balances) are forecast to grow to £58.6M by the end of 2028/29. The forecast level of reserves in each year of the MTFS is included in Appendix 1.

## **COUNCIL RESOURCES AND FUNDING**

### **Council Tax**

48. For 2025/26 an increase in 'core' council tax of 2.99% and an increase in the adult social care precept of 2.00% is proposed. This in line with the referendum limits set by the government, which means that the overall charge for the Southampton City Council element of the council tax will increase to £1,903.14 for a Band D household, which is an extra £1.74 per week.

49. The tax base for 2025/26 has been estimated at 67,345 (Band D equivalents), which represents an increase of 0.5% on the tax base applied in 2024/25. The increase is mainly due to introducing premiums on second homes.

50.	The full calculation is set out in Appendix 6, which shows the council tax requirement for 2025/26 is £128.2M. Additional charges will be made by the Police and Fire authorities as set out in Appendix 7.
51.	The government has given no indication of council tax referendum limits that will apply beyond 2026/27. For planning purposes, the working assumption for future years is the limits will stay the same, that is a 2.99% increase in the core council tax and a 2% increase in the adult social care precept.
	<b><u>Business Rates</u></b>
52.	For 2025/26 the government has frozen the small business rates multiplier and increased the standard multiplier by 1.7% in line with the increase in the Consumer Price Index (CPI) for September 2024. The freeze in the small business rates multiplier and the extension of rate relief measures for the retail, hospitality and leisure sectors announced in the Autumn Budget 2024 will be funded by government grant.
53.	Under the business rates retention scheme the council retains 49% of the business rates collected locally, with 1% going to the Hampshire and Isle of Wight Fire & Rescue Authority and 50% to central government. The council's estimated share of business rates income (excluding government grant in lieu of rates) for 2025/26 is £54.0M.
54.	The MTFs assumes the impact of the business rates revaluation scheduled for 2026 on the council's income is neutral.
	<b>Council Tax and Business Rates Growth</b>
55.	The council's growth strategy is expected to generate additional income in the medium term. The MTFs includes a target for council tax and business rates growth from 2027/28 onwards. This does not include business rates growth in the Solent Freeport designated tax site which will be pooled for use as agreed by the Freeport.
	<b><u>Government Grants</u></b>
56.	<b><u>Revenue Support Grant (RSG)</u></b> For 2025/26 RSG has been uplifted by 1.7% in line with the September 2024 CPI increase and some small grants have been rolled in, taking it to £14.1M. The MTFs assumes that RSG will increase at 2% per annum in future years in line with CPI. The potential impact of reforms to the local government finance system have not been factored in at this stage.
57.	<b><u>Top-Up Grant</u></b> The council receives Top-Up Grant as part of the business rates retention scheme and its allocation for 2025/26 is £6.2M. The government intends to reset business rates baselines in 2026/27 and the MTFs assumes the council's grant will reduce because of this reset.
58.	<b><u>New Homes Bonus</u></b> Pending replacement as part of the wider local government finance system reforms, the New Homes Bonus scheme has been rolled over for one more year. The council's allocation for 2025/26 is £0.05M.
59.	<b><u>Public Health Grant</u></b> The Public Health Grant continues to be a ring-fenced grant in 2025/26 and is included within the budget for Community Wellbeing. Final allocations for 2025/26 were published on 7 February 2025, with the council being awarded £20.2M.

60. Social Care Grants

The council's allocation of Social Care Grant has increased from £24.3M in 2024/25 to £28.8M for 2025/26, including its share of the additional £880M announced in the local government finance settlement. This grant is ring-fenced to adults and children's social care and is budgeted for within Children & Learning and Community Wellbeing.

For 2025/26 the other main adult social care grants are being maintained at their 2024/25 levels. The council's allocation of Local Authority Better Care Grant for 2025/26 is £13.2M and its allocation of ASC Market Sustainability and Improvement Fund is £4.9M. These ring-fenced grants are included within the budget for Community Wellbeing.

The government has introduced a new Children's Social Care Prevention Grant for 2025/26, for which the council's allocation is £1.7M. Several existing children's social care grants have been amalgamated into a single Children's and Families Grant for 2025/26, for which the council's allocation is £2.2M. These ring-fenced grants are budgeted for within Children & Learning.

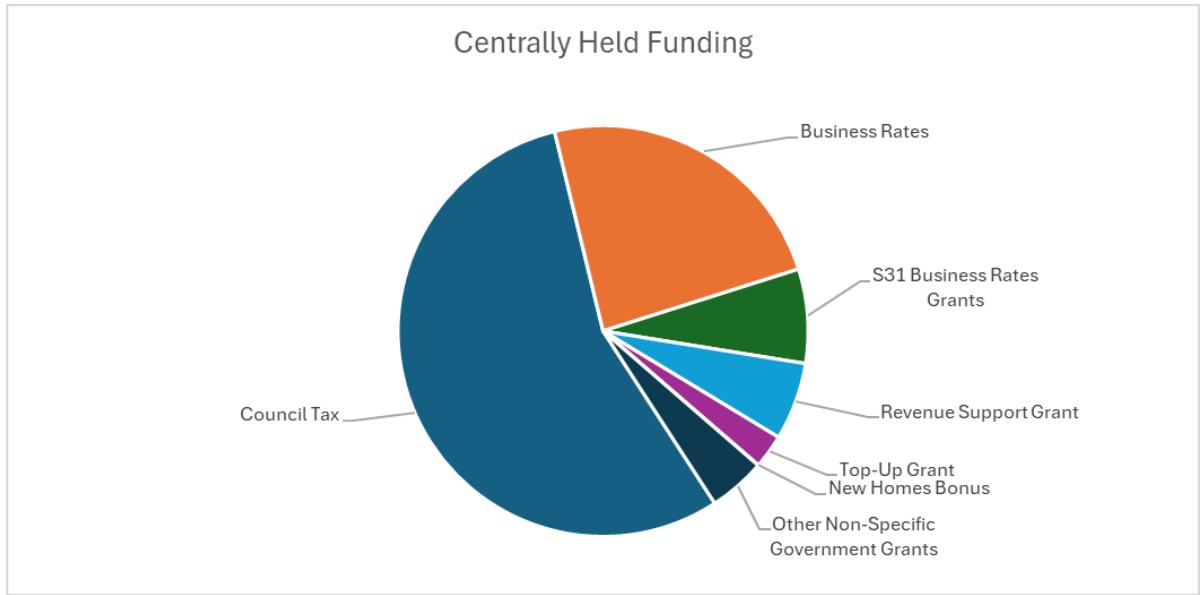
61. Other Grants

The government has introduced a new un-ringfenced Recovery Grant for 2025/26 which is targeted at local authorities with high levels of deprivation and relatively low ability to generate council tax income, for which the council's allocation is £7.3M. Services Grant (£0.4M for the council in 2024/25) has been repurposed into this new grant.

The council has been allocated £2.1M funding in 2025/26 to compensate for the direct costs of the changes to employer national insurance contribution rates and thresholds announced in the Autumn Budget 2024.

62. Chart 1 below shows a breakdown of the council's £230.8M centrally held (un-ringfenced) funding for 2025/26. Council tax revenue represents over half of the un-ringfenced funding available. A schedule of key revenue grants received by the council is included at Appendix 8.

63. Chart 1 – 2025/26 Centrally Held Funding



	<b><u>Fees &amp; Charges</u></b>
64.	The Council's policy is that fees and charges will generally be increased annually in line with CPI, and generally with reference to September CPI (in the year prior). The Council seeks to recover relevant full costs in setting these charges.
65.	Following the operation of this policy for a year a small amendment is proposed to insert the words "at least" CPI.
66.	This minor amendment is required to enable some room for manoeuvre in setting charges including to recover costs and taking account of differing rates of inflation.
67.	Fees and charges have been reviewed and a summary of changes for 2025/26 is included at Appendix 9. A schedule of individual charges is available in Members' Room Documents.
	<b><u>EXCEPTIONAL FINANCIAL SUPPORT</u></b>
68.	In February 2024 the government confirmed it was minded to provide Exceptional Financial Support (EFS) to the council of up to £121.58M in the form of a capitalisation direction to fund revenue expenditure and other potential liabilities.
69.	The original EFS offer applied to one year only (2024/25). The council has applied to government to allow it to use up to £121.58M of EFS flexibly over 2024/25 and 2025/26.
70.	Any borrowing taken out to fund EFS must be repaid over 20 years. Normal PWLB borrowing rates apply, with the government removing the previous 1% premium. Budget provision for the borrowing costs for using EFS to meet the revenue deficit in 2024/25, part of the transformation programme costs and equal pay costs (assumed at the level of the EFS application) has been built into the MTFS.
	<b><u>OTHER ISSUES CONTRIBUTING TO THE MTFS AND BUDGET 2025/26</u></b>
	<b><u>2024/25 General Fund Revenue Outturn</u></b>
71.	The 2024/25 forecast outturn for the General Revenue Fund based on the financial position as at the end of January 2025 (month 10) is a £19.0M favourable variance. This is a further positive movement of £0.6M compared to the position at month 9. Further details are provided in the Financial Position Update report to Cabinet on 25 February 2025.
72.	£9.5M of the favourable variance relates to the early delivery of transformation savings, providing confidence in the ability to realise substantial benefits in 2025/26. £3.2M of the remaining favourable variance relates to other ongoing savings which have been considered in formulating the 2025/26 budget.
73.	The 2024/25 budget set in March 2024 relied on £39.3M of Exceptional Financial Support to balance the budget, for which the annual revenue cost of borrowing would have been £3.2M. If the favourable forecast variance of £19.0M is sustained, the borrowing costs will be £1.6M per annum lower at £1.6M, reducing the impact on the budget in future years.
	<b><u>2024/25 Collection Fund Outturn</u></b>
74.	The estimated position on the Collection Fund is set out in Table 12 below.

75.	<p><b>Table 12 – Collection Fund 2024/25 Estimated Surplus/Deficit</b></p> <table border="1" data-bbox="288 248 1465 725"> <thead> <tr> <th data-bbox="288 248 938 376"></th> <th data-bbox="943 248 1145 376">Council Tax £M</th> <th data-bbox="1150 248 1353 376">Business Rates £M</th> <th data-bbox="1358 248 1465 376">Total £M</th> </tr> </thead> <tbody> <tr> <td data-bbox="288 383 938 421"><b>(Surplus)/Deficit Carried Forward</b></td> <td data-bbox="943 383 1145 421">0.55</td> <td data-bbox="1150 383 1353 421">(2.40)</td> <td data-bbox="1358 383 1465 421">(1.86)</td> </tr> <tr> <td data-bbox="288 427 938 465">Which is shared as follows:</td> <td data-bbox="943 427 1145 465"></td> <td data-bbox="1150 427 1353 465"></td> <td data-bbox="1358 427 1465 465"></td> </tr> <tr> <td data-bbox="288 472 938 510">Southampton City Council</td> <td data-bbox="943 472 1145 510">0.46</td> <td data-bbox="1150 472 1353 510">(1.18)</td> <td data-bbox="1358 472 1465 510">(0.72)</td> </tr> <tr> <td data-bbox="288 517 938 584">Hampshire and Isle of Wight Police &amp; Crime Commissioner</td> <td data-bbox="943 517 1145 584">0.07</td> <td data-bbox="1150 517 1353 584">N/A</td> <td data-bbox="1358 517 1465 584">0.07</td> </tr> <tr> <td data-bbox="288 591 938 629">Hampshire and Isle of Wight Fire &amp; Rescue Authority</td> <td data-bbox="943 591 1145 629">0.02</td> <td data-bbox="1150 591 1353 629">(0.02)</td> <td data-bbox="1358 591 1465 629">(0.00)</td> </tr> <tr> <td data-bbox="288 636 938 674">Central Government</td> <td data-bbox="943 636 1145 674">N/A</td> <td data-bbox="1150 636 1353 674">(1.20)</td> <td data-bbox="1358 636 1465 674">(1.20)</td> </tr> <tr> <td data-bbox="288 680 938 719"><b>Total</b></td> <td data-bbox="943 680 1145 719">0.55</td> <td data-bbox="1150 680 1353 719">(2.40)</td> <td data-bbox="1358 680 1465 719">(1.86)</td> </tr> </tbody> </table>		Council Tax £M	Business Rates £M	Total £M	<b>(Surplus)/Deficit Carried Forward</b>	0.55	(2.40)	(1.86)	Which is shared as follows:				Southampton City Council	0.46	(1.18)	(0.72)	Hampshire and Isle of Wight Police & Crime Commissioner	0.07	N/A	0.07	Hampshire and Isle of Wight Fire & Rescue Authority	0.02	(0.02)	(0.00)	Central Government	N/A	(1.20)	(1.20)	<b>Total</b>	0.55	(2.40)	(1.86)
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76.	The net £0.72M surplus attributable to Southampton City Council is a one-off contribution to the budget in 2025/26.																																
<b>DEDICATED SCHOOLS GRANT (DSG) AND SCHOOL BALANCES</b>																																	
77.	The local authority receives Dedicated Schools Grant from central government each year to fund schools. The allocation for 2025/26 notified on 18 December 2024 is £297M. This includes funding for academies which will be recouped by the Department for Education for direct distribution to academies. The 2025/26 DSG funding after recoupment, which the local authority will receive, is estimated to be £196.3M, an increase of £16.6M compared to 2024/25. Further details are provided in Appendix 1.																																
78.	The cumulative DSG deficit is forecast to be £5.6M by the end of 2024/25, an improvement of £1.5M from the £7.1M cumulative deficit as of 31 March 2024. This deficit would normally need to be offset against other revenue reserves, effectively reducing our General Fund reserves. However, a statutory override is currently in place until the end of 2025/26. The council cannot rely on any further extensions of this override and firm plans must be implemented and monitored to eliminate this deficit by, or before, 31 March 2026.																																
79.	Outside of the DSG deficit, individual schools can also incur a deficit. There are 13 schools in deficit and 29 schools in surplus. The total of deficits forecast for 2024/25 is £4.3M, which compares with £4.9M deficit at 31 March 2024. Three schools are expected to return to a surplus position at the end of March 2025. The total surplus for those schools in surplus is projected to be £7.2M for 2024/25. It is a requirement of the Scheme for Financing Schools that schools in deficit prepare and implement Deficit Recovery Plans and these are in place or are being developed for the schools in deficit. It is the responsibility of the Executive Director of Children’s Services to ensure the Deficit Recovery Plans are in place.																																
<b>PROCUREMENT FORWARD PLAN</b>																																	
80.	Appendix 10 is the Procurement Forward Plan for the period 1 April 2025 to 31 March 2026, inclusive. This details individual projects that have a forecast total contract value (the total value of the contract over its entire lifespan) of more than £25,000 (exclusive of VAT). It should be noted that urgent and unforeseen projects may be added to the Procurement Forward Programme subject to the necessary approvals as set out in the Council’s Constitution.																																



81.	Appendix 11 is the indicative Procurement Pipeline for the period 1 April 2026 to 31 March 2028, inclusive. This details individual projects that have a forecast total contract value (the total value of the contract over its entire lifespan) of more than £25,000 (exclusive of VAT). The projects contained in the Procurement Pipeline will be brought forward for consideration in reports in respect of the financial year in which they are due to take place.
	<b>BUDGET CONSULTATION</b>
82.	The development and delivery of the adapt   grow   thrive transformation programme has led to a rolling approach to public consultation over the past year.
83.	Where the transformation programme includes service changes requiring consultation, this has been carried out throughout the year ahead of final decisions being taken. Beyond 2025/26 where proposals are not progressed following consideration of the public consultation results, alternative corresponding savings would need to be found.
84.	A summary of the proposals consulted on as part of the transformation programme and budget setting is set out below: <ul style="list-style-type: none"> <li>• Changes to the school travel policy</li> <li>• Council tax support scheme</li> <li>• Changes to parking tariffs and charging hours in suburban car parks</li> <li>• Introduction of a Lane Rental scheme (currently live, closes 6 March 2025). See paragraph 43 above for alternative budget option if the associated saving needs to be removed.</li> </ul>
85.	Full consultation reports on each of these proposals have been, or will be, published as part of the final consideration and decision making and are available on the council's website in the corresponding reports packs.
86.	Note, the council has carried out other consultations not related to budget setting or transformation throughout the year, these are detailed on the council's 'consultations and surveys' webpage.
87.	Alongside each consultation an Equality and Safety Impact Assessment (ESIA) has been carried out to review the impact of the proposal on groups defined within the Protected Characteristics as set out in the Equality Act 2010, as well as the impacts on community safety, poverty and health and wellbeing. Each ESIA was published alongside the public consultation to inform feedback.
88.	A statutory consultation has also been held with business rates payers and is due to close on 25 February 2025 ahead of the Council budget setting meeting. A verbal update on any significant responses that require consideration will be provided to Members at the meeting.
89.	Given the scale of internal change resulting from transformation projects, as set out in the update to Cabinet in October 2024 a set staff consultation approach has been adopted to ensure that all consultations are compliant with the council's policies and procedures, that meaningful consultation takes place and that all employees are given the time and opportunity to engage with their managers and directors and share their views on proposed changes. Our approach to this complex and extended period of change is as follows: <ul style="list-style-type: none"> <li>• The workforce and TU representatives will be kept informed and have the opportunity to discuss the organisation wide changes.</li> </ul>



	<ul style="list-style-type: none"> <li>• Individual directorate consultations will start at different times, and these will be required to provide an ESIA (Equality Safety Impact Assessment).</li> <li>• Employees at risk of redundancy will be given the opportunity to access redeployment opportunities and supported during the process.</li> <li>• An HR1 form will be completed to notify the government of potential redundancies and is required at least 45 days before the first dismissal redundancy notice is served.</li> <li>• A S188 (Trade Union Labour Relations Act) letter will be issued to the recognised trade unions of any proposed redundancies of 20 or more employees within a 90-day period. With consultation at both an organisation and directorate level.</li> </ul>
	<b>EQUALITY AND SAFETY IMPACT ASSESSMENTS</b>
90.	The Equality Duty is a duty on public bodies which came into force on 5 April 2011. The council will have due regard to the impact of its decisions on its equality duties and the need to advance equality of opportunity between people who have protected characteristics and those who do not.
91.	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, health and wellbeing and care experience.
92.	Individual Equality and Safety Impact Assessments (ESIAs) have been completed for savings proposals contained within this report that were identified as needing an assessment, as they could have an impact on a particular group or individuals. The individual ESIAs are available in Members' Room documents alongside summaries of each savings proposal.
93.	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. Where appropriate, analysis takes account of the most recent reliable data available for the population of Southampton which remains the Office of National Statistics (ONS) Census which took place on 21 March 2021, other modelling data drawn from the Census is also used to reflect likely population change since 2021. A full breakdown of the census results and other modelling data is available on the Southampton Observatory website including breakdowns by protected characteristic where available. The Cumulative Impact Assessment is attached at Appendix 12.

	<b><u>SECTION 25 STATEMENTS IN ACCORDANCE WITH THE LOCAL GOVERNMENT ACT 2003 – ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES</u></b>
94.	The Chief Financial Officer is required to make a statement on the adequacy of reserves and the robustness of the budget. This is a statutory duty under Section 25 of the 2003 Local Government Act. An authority is required to consider their Chief Financial Officer's report when setting the level of Council Tax.

	<b>Robustness of Estimates</b>
95.	<p>The council remains in a challenging financial position. It was only able to set a balanced budget for 2024/25 with Exceptional Financial Support (EFS) of £39.3M. Through strong financial management, budgetary control measures and early delivery of transformation savings the Council is forecasting a year end positive variance of £19.0M (as at the end of January). This means the requirement for EFS related to every day expenditure is now £20.3M. In last year's Section 25 statement I reported "The utilisation of this capitalisation direction needs to be kept to a minimum via careful management of the council's financial position, using transformation as well as strong budgetary control by budget holders". It is noteworthy that this objective has been realised.</p>
96.	<p>The budget presented in this report will be balanced without the need for EFS nor any utilisation of risk reserves. This budget removes the underlying structural deficit in the council's finances and the reliance on reserves or EFS to support everyday expenditure.</p> <p>However, the council should not stop striving to achieve efficiencies and growth as it still carries considerable financial risk. This includes fully achieving significant transformation and consequent savings built into the budget (£34.5M in 2025/26). In addition, Directorates are being asked to absorb pressures within their cash limited budgets.</p> <p>To ensure careful financial management of the budget and budget holders are aware of their responsibilities, the Accountability Statement requirement introduced in 2024/25 will be required again in 2025/26 and the Budget Review Panel will remain in place.</p> <p>Nevertheless, the inherent risk in the budget remains and that reinforces the on-going need to build up reserves in the medium term, and in particular building risk related reserves from 2025/26.</p>
97.	<p>The council has applied for an extension of EFS into 2025/26. This would mean the Council may require the use the unused element of EFS approved for 2024/25 in 2025/26. This will primarily be used to cover equal pay, transformation cost and restructuring costs because of implementing the transformation savings. It would also be required to cover the assessed shortfall in reserves helping us to manage the overspend risk as we go through the year. It should not be used in place of strong financial management including the continuation of the Budget Review Panel chaired by the Chief Executive and the use of Deficit Recovery Plans.</p>
98.	<p>It would be remiss of me not to mention the Housing Revenue Account in this statement, the position presented to you today, is a holding position until a major piece of work has been completed to assess the financial implications of addressing the stock condition and other issues raised in the recent report by the housing inspector. It is expected a further report will be brought in the summer reflecting the work completed and updating the position.</p>
99.	<p>The MTFS report at Appendix 1 assesses the impact of several variables including inflation, funding, and the council tax base on the budget and MTFS assumptions. This is called sensitivity analysis and gives an estimate of the financial exposure the council may faces if such variables move in an adverse way. For example, a 1% higher than forecast pay award would cost to council £1.3M per annum.</p>

	<p>The MTFS is balanced across the period 2025/26 to 2028/29. In the last two years of the MTFS period (2027/28 and 2028/29), business rates and council tax growth targets have been set. This growth target is £4.4M (2.7M in 2027/28 and a further £1.7M in 2028/29). Whilst these targets are consistent with known developments, any under-achievement will lead to pressure on expenditure in the latter years of the MTFS.</p>
100.	<p>I can confirm that the budget has been set on reasonable assumptions as set out in the MTFS (Appendix 1). The budget also considers all material, financial and business issues known at the time of preparation.</p>
	<p><b>Adequacy of Reserves</b></p>
101.	<p>In addition to the financial risks and mitigations highlighted above, there are several other risks that need to be considered when assessing the level of reserves. These are detailed below in the following paragraphs.</p> <p><b>Demand</b></p> <p>The potential for the council to overspend its resources through demand pressures in social care, homelessness, and education transport. A demand modelling project has been commissioned to develop more sophisticated demand forecasting in these and other areas, and the demand pressures have been contained and managed in 2024/25. A social care risk reserve is in place.</p> <p><b>Transformation</b></p> <p>The reliance on delivering transformation to achieve a balanced budget, as noted above, poses risk to the council in a number of areas, the volume of change required, the interdependencies between programmes for success to be achieved, and the realisation of savings from budget, as well as demand increases.</p> <p><b>Other Savings</b></p> <p>In addition to Transformation savings (£34.5M), there are sustained savings feeding through from 2024/25 (£3.2M), and cash limit savings proposals (£1.1M). The total savings for 2025/26 included in the budget are therefore £38.8M, which represents a significant total (16.8%) out of the net budget of £230.8M.</p> <p><b>Pressures</b></p> <p>Operating in a cash limited environment means pressures that arise as we go through the year need to be managed within the directorates own budget. We have provided for several pressures in setting the budget, there are some that will be managed by the directorate and these have been set out in appendix 1 alongside the mitigations. These pressures are approximately £3M or 1.3% of the net budget. Cash limits are still a new concept to the organisation as a way of managing expenditure, the finance team are building on last year's experience in ensuring budgets are fully understood when signing accountability statements.</p> <p><b>Government Funding</b></p> <p>The local government finance settlement 2025/26 is for one year only, although government has committed to multi-year settlements in the future. So, uncertainty remains with government funding and the changing priorities of the new government, although increased funding for local government in 2025/26 is welcomed. There are also likely to be changes in grant distribution methodologies, some of which we have already seen for 2025/26. The use of the deprivation index in the calculation of government support and the Recovery Grant has had a positive impact on the council's settlement, with an estimated increase of £15.8M (excluding ERNIC compensation) in government funding</p>

compared to assumptions made prior to the Chancellor's Autumn Statement and Local Government Finance Settlement.

### **Business Rates**

Business rates are also inherently unpredictable, meaning the Council must budget prudently allowing for uncertainty and volatility with funding in future as this funding stream is linked to local economic strength and is not reflective of the demands faced by the Council for service provision.

There is also a potential risk of a loss of the business rate growth to the council from any future reforms to the Business Rate Retention Scheme. Currently this provides the Council with a 49% share of local business rates. Any update of the scheme is likely to mean a 'reset' of baselines used to calculate the growth retained locally for business rates, with the amount of growth therefore at risk depending on the detail of any Government proposals.

### **Devolution and Local Government Reorganisation**

Whilst the impact of Devolution plans and potential Local Government Reorganisation (LGR) have not been quantified in this budget or MTFS, it is certain that a significant programme of work will need to be established and funded. It is assumed these will be funded by government but in the absence of any other funding sources, these programme cost will need to be covered from the Council's reserves. A full financial impact of any reorganisation will need to be included in future MTFS updates.

### **Inflation**

Pay inflation remains a risk. The proposed budget for 2025/26 makes provision of around 2% for pay inflation. An additional 1% would add £1.3M to the requirement. There is no provision in reserves for this risk therefore any sum beyond that will mean that directorates will have to find additional savings from within their cash limits.

The council has had a policy of only increasing non-pay budgets where they relate to external contracts. An additional 1% on these contracts will result in an additional pressure of £1.4M, including social care contract uplifts there is no provision for this in reserves.

### **Employers National Insurance changes**

The Chancellor announced increases in both Employers National Insurance Contributions (ERNIC) and in the National Living Wage (NLW) in her Autumn Statement. The direct cost of ERNIC increases on council employees has been partially compensated in the finance settlement (£2.1M of the estimated £3.5M cost in the General Fund). The unfunded balance has been provided for in the budget. However, no such compensation has been provided for the additional costs borne by the council's supply chain, notably in social care. This budget contains an additional inflation provision for social care contract costs. However, if actual costs are higher than provided these will need to be managed within Directorate Cash Limits.

### **Equal Pay**

The Council faces a significant equal pay claim because of previous working practices. The financial impact of claims (and their volume) is not certain at this stage and is subject to the conclusion of negotiations. Further work will be ongoing to address the equal pay matter and as we end this financial year and into next year this liability will become more certain both in terms of timing and amount. This will lead to the requirement for a provision or reserve to be created.

	<p>The council does not have sufficient financial reserves to deal with the potential impact and therefore requested in its February 2024 application for Exceptional Financial Support (EFS) a sum of up to £52M to cover equal pay. As it also uncertain how much of this impact will fall in which financial year, the council has applied for EFS to be extended for a further financial year. The outcome of this application is unknown at the time of writing.</p>
	<p><b>DSG and School Balances</b></p>
102.	<p>The deficit the authority has within the ring-fenced Dedicated Schools Grant (DSG) must also be highlighted as a significant risk. This currently stands at an estimated £5.6M cumulative deficit forecast by the year-end, an improvement of £1.5M from the £7.1M cumulative deficit as of 31 March 2024. This will fall on the authority to cover from 1 April 2026 unless the deficit is resolved by then. There is a risk that without clear plans to ensure the council has removed this potential pressure prior to the statutory override being removed this will become a significant pressure in 2026/27.</p>
103.	<p>The schools' balances are in a positive position however there is a cumulative deficit of £4.3M from 13 schools. Three schools are expected to move into surplus by the end of March 2025. This represents a decrease from the 2023/24-year end position of £4.9M deficit. Continuing action and the implementation of Deficit Recovery Plans (DRPs) is required to further reduce these school deficits.</p>
	<p><b>Housing Revenue Account (HRA)</b></p>
104.	<p>The HRA must also plan long term, due to the long-term nature of the investment required for good, well maintained housing stock. Over that longer term, there remains several uncertain liabilities that are hard to quantify and that, coupled with rising costs and interest rates, is likely to prove a significant challenge in future years.</p> <p>A significant risk to the long-term plan is the risk of overall capital investment requirement significantly increasing over a prolonged period. The impact of this could have a significant adverse impact on HRA balances as property costs would begin to exceed rental income. Proposals to refresh the Business Plan and investment programme will come forward later in the year.</p>
	<p><b>Adequacy of Reserves Conclusion</b></p>
105.	<p>When confronted by financial risk, the S151 Officer must evaluate the available resources at the Council's disposal to mitigate risks. To this end, the resources available for 2025/26 under the proposed budget are:</p> <ul style="list-style-type: none"> <li>• A forecast available balance within the General Fund as at the end of 2025/26 of £12.0M; and</li> <li>• A forecast uncommitted balance in the Medium-Term Financial Risk (MTFR) Reserve which is forecast will be £10.0M at April 2025</li> </ul> <p>Reserves remain inadequate going into next financial year to manage the risks identified, having been depleted in previous years. Although there are some modest contributions to reserves planned for 2024/25, it is important that the council continue the strategy of increasing reserves as planned and allocating one off gains into reserves. It must continue to build in reasonable replenishment to its plans as well as minimising the need for reserves by:</p> <ul style="list-style-type: none"> <li>• ensuring risks are managed via mitigations and within cash limit budgets; and</li> </ul>

	<ul style="list-style-type: none"> <li>having budget plans that account for any foreseeable pressures and are owned and understood by the budget holder.</li> </ul> <p>Additional work will be needed during 2025/26 and onwards to find ways to continue to strengthen reserves for the general fund and the housing revenue account, in future iterations of the MTFS, and move to a position where reserves are adequate both for risks faced and the capacity needed to invest in services and the city.</p>
106.	The Council has applied for an extension of EFS for 2025/26, since the original EFS was only granted for 2024/25. At the time of writing the outcome of this application is not known. If the EFS extension application is not granted, the council will have inadequate reserves to cover its potential financial risks, and that represents a heightened overall risk to the council's finances.

## RESOURCE IMPLICATIONS

### Capital/Revenue

107. The capital and revenue implications are fully detailed within the report.

### Property/Other

108. There are no specific property implications arising from this report.

### Staffing Implications

109. The proposed transformation savings contained within this report do have implications on the number of full-time equivalent posts within the council. The overall impact is estimated to be in the range of 135 – 159 full-time equivalent posts, which includes 74 vacant posts, as shown in Table 13 below.

110. Table 13 – Staffing Implications of Transformation Programme

Portfolio	Potential Total Post Reduction Range		Potential Vacant Post Included	Potential Occupied Post Reduction Range	
	FTE	FTE	FTE	FTE	FTE
ASC & Health Total	55	65	39	16	26
Children's Services Total	23	25	0	23	25
Schools & SEND Total	0	0	0	0	0
Growth & Prosperity Total	2	2	2	0	0
Residential Services Total	36	45	23	13	22
Customer & Community Total	15	16	10	5	6
Enabling Excellence Total	4	6	0	4	6
<b>Total</b>	<b>135</b>	<b>159</b>	<b>74</b>	<b>61</b>	<b>85</b>

111. Further details are provided in Appendix 1.

## LEGAL IMPLICATIONS

112. 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.

113. 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

	<p>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.</p>
114.	<p>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.</p>
115.	<p>The legal significance of the Annual Budget derives from the council's duty under the Local Government Finance Act 1992 (the 1992 Act) to set a balanced budget. Failure to make a lawful Council Tax on or before 11 March 2025 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.</p>
116.	<p>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.</p>
117.	<p>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.</p>
118.	<p>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 statement by the S151 officer is included alongside the budget and council tax setting report to both Cabinet and full Council.</p>
119.	<p>Of particular importance to the council tax setting process and budget meeting of the full Council is the council's Budget and Policy Framework Procedure Rules set out in Part 4 of the City Council's Constitution. These provide a legal framework for the decision-making process whereby the budget of the city council is determined, and the council tax is set. In addition, Members need to be aware that these rules provide a route whereby the Leader may require the full council to reconsider their position if they do not accept the Executive's recommended budget without amendment.</p>
120.	<p>Further detailed legal considerations relating to the setting of a lawful budget are set out appendix 13, which Members are directed to have regard to in reaching their decision.</p>

121.	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.
<b><u>Other Legal Implications:</u></b>	
122.	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 Management Board, the proposals contained in this report have been checked from a legal viewpoint.
123.	<p>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.</p> <p>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.</p> <p>The duty provides that:</p> <p>(1) A public authority must, in the exercise of its functions, have due regard to the need to—</p> <p>(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;</p> <p>(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;</p> <p>(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.</p> <p>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—</p> <p>(a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;</p> <p>(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;</p> <p>(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.</p> <p>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—</p> <p>(a) tackle prejudice, and</p> <p>(b) promote understanding.</p> <p>The relevant protected characteristics are—</p> <ul style="list-style-type: none"> <li>• age;</li> <li>• disability;</li> <li>• gender reassignment;</li> </ul>



	<ul style="list-style-type: none"> <li>• pregnancy and maternity;</li> <li>• race;</li> <li>• religion or belief;</li> <li>• sex;</li> <li>• sexual orientation.</li> </ul> <p>Details of how the council has approached and considered its duty under to Equalities Act 2010 are set out in the accompanying ESIs which Members must have regard to in reaching their decision.</p>
<b>RISK MANAGEMENT IMPLICATIONS</b>	
124.	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, with the last update included as a Members' Room Document to the Financial Position Update report to Cabinet on 25 February 2025.
125.	Details of the risk assessment of the budget are given with the Chief Financial Officer's statement on the robustness of the budget estimates at paragraphs 96 to 108.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
126.	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 2025/26 must be proposed by the Cabinet for consideration by the full Council under the Constitution.

<b>KEY DECISION?</b>	<b>No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	All
<u>SUPPORTING DOCUMENTATION</u>	
<b>Appendices</b>	
1.	Medium Term Financial Strategy 2024/25 to 2028/29
2.	2025/26 Directorate Budget Adjustments by Service Activity
3.	Budget Pressures
4.	Commitments
5.	Savings Proposals
6.	2025/26 Council Tax Calculation
7.	2025/26 Council Tax Collection Fund Estimates
8.	Government Grants
9.	Summary of Fees and Charges Changes 2025/26
10.	Procurement Forward Plan 2025/26
11.	Procurement Pipeline 2026 - 2028
12.	Budget February 2025 - Cumulative Impact Assessment
13.	Statutory Power to Undertake Proposals in the Report
<b>Documents In Members' Rooms</b>	

1.	Schedule of Fees and Charges	
2.	Equality and Safety Impact Assessments (ESIAs)	
3.	Savings Proposals Details	
<b>Equality Impact Assessment</b>		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		Yes
<b>Data Protection Impact Assessment</b>		
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		Yes
<b>Other Background Documents</b>		
<b>Other Background documents available for inspection at:</b>		
<b>Title of Background Paper(s)</b>		<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>
1.	MTFS Quarter 2 Update (Cabinet 29 October 2024)	
2.		