

DECISION-MAKER:	CABINET COUNCIL		
SUBJECT:	THE REVENUE BUDGET 2023/24, MEDIUM TERM FINANCIAL STRATEGY AND CAPITAL PROGRAMME		
DATE OF DECISION:	21 FEBRUARY 2023 (CABINET) 22 FEBRUARY 2023 (COUNCIL)		
REPORT OF:	CABINET MEMBER FOR FINANCE AND CHANGE		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY

Appendix 7 is exempt from publication by virtue of category 3 of rule 10.4 of the Council's Access to Information Procedure Rules i.e. information relating to the financial or business affairs of any particular person. It is not in the public interest to disclose this information due to an ongoing commercial dispute which is subject to a protected alternative dispute resolution procedure. If the information was disclosed then the Council's financial position would be available to other parties to the dispute and prejudice the Council's ability to achieve best value.

EXECUTIVE SUMMARY

This report details the revenue budget for 2023/24 and the Medium Term Financial Strategy (MTFS) for the period 2023/24 to 2026/27. It provides detail to inform Council in setting council tax and rents for 2023/24.

The report also sets out the Capital Strategy and Flexible Use of Capital Receipts Strategy and provides details of the capital programmes for the General Fund and Housing Revenue Account (HRA) for the period 2022/23 to 2027/28.

The report identifies how the 2023/24 budget has been balanced since the forecast shortfall reported to Cabinet on 8 November 2022, which was £28.9M. It outlines how additional funds arising from the November 2022 Autumn Statement and confirmed in the local government finance settlement, including extra council tax flexibilities (£3.3M), together with further savings (£4.98M) and use of reserves (£22.0M) have helped both balance the budget and meet new pressures arising since November.

The importance of the services provided by Southampton City Council to our local residents, businesses and communities continues to be very evident and the Council has set out very clear aims around fulfilling Southampton's huge potential over the coming years. The Council's budget setting process therefore centres around the goals contained within the City Council Corporate Plan

to ensure resources are directed towards agreed priorities. The budget is presented to show the resources being allocated to these organisational goals. These goals are as follows:

- Strong foundations for life
- A proud and resilient City
- A prosperous City
- A successful sustainable organisation

The process matches available resources with our delivery of our priorities so that we focus and protect our efforts and spending where it will have most benefits.

The financial pressure caused by the pandemic, followed by the much more difficult economic situation which has emerged in this last year are a challenge to many councils, especially those with social care responsibilities and rising demand pressures. This was recently in evidence in the joint letter Kent and Hampshire County Councils wrote to the Government in November 2022, referring to their budget deficits being on a scale that has never been seen before and not of their own doing, with budgets at breaking point. Southampton City Council is therefore part of a cohort of authorities under severe financial stress.

Details of the budget and capital programme are included in the following appendices and annexes thereto:

Appendix 1 The Revenue Budget 2023/24 and Medium Term Financial Strategy 2023/24 to 2026/27

Appendix 2 The Capital Strategy

Appendix 3 The Flexible Use of Capital Receipts Strategy

Appendix 4 The General Fund Capital Programme 2022/23 to 2027/28

Appendix 5 The HRA Budget 2023/24 and Capital Programme 2022/23 to 2027/28

RECOMMENDATIONS:

CABINET

Cabinet is recommended to:

General Fund Revenue

	i)	Note the forecast outturn position for 2022/23 as set out in paragraphs 26 to 28 of Appendix 1.
	ii)	Note the revised Medium Term Financial Strategy 2023/24 to 2026/27 as detailed in paragraphs 69 to 76 of Appendix 1 and Annex 1.1.
	iii)	Note the aims and objectives of the Medium Term Financial Strategy which will be presented to council for approval on 22 February 2023 as set out in paragraph 32 of Appendix 1.
	iv)	Note that formal budget consultation began on 9 November 2022 and ended on 10 January 2023, although comments submitted after this date will be considered where possible. The outcome of the consultation is outlined in paragraphs 54 to 60.
	v)	Note that the Equality and Safety Impact Assessment process that was followed as set out in paragraphs 61 to 64. The updated ESAs and Cumulative Impact Assessment are available documents in the Members' Room.
	vi)	Note that the Executive's budget proposals are based on the assumptions detailed within the MTFS and that this includes for 2023/24 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.
	vii)	Note that the report identifies General Fund pressures totalling £28.22M in 2023/24, falling to £26.52M in 2026/27, as detailed in paragraph 53 of Appendix 1.
	viii)	Note that savings proposals totalling £22.03M are included in the 2023/24 General Fund Revenue Budget, reducing to £19.27M in 2026/27, as detailed in paragraph 57 of Appendix 1.
	ix)	Delegate authority to the Head of Supplier Management, after consultation with the Cabinet Member for Transport and District Regeneration, to approve amendments to the Part-night Street Lighting Exemptions Scheme set out in Annex 1.7.
	x)	Note that the budget sets the Band D Council Tax for Southampton City Council at £1,726.47 for 2023/24, a Net Budget Requirement of £221.45M and the Council Tax Requirement for 2023/24 at £115.77M as per Annex 1.2.
	xi)	Notes and endorses the Statement of the S151 Officer as set out in paragraphs 20 to 45 on the robustness of the budget and the adequacy of the council's reserves. In particular the precarious financial position of the authority, the high level of financial risk currently faced and the lack of adequacy of reserves in the light of these risks and that work must continue at pace to lower reliance on reserves as remaining unallocated reserves (estimated at £10.3M) will be exhausted in 2024/25 at the latest, and potentially earlier in 2023/24 should the risks identified in this report materialise.
	xii)	Note that work will continue to review opportunities and proposals to address the 2024/25 and future years budget shortfall and to help mitigate the high level of financial risk within the budget.
	xiii)	Note and recommend to Council where appropriate, the MTFs and General Fund Revenue Budget changes as set out in Council recommendations i) to xvii).
	xiv)	Note CIPFA's code of practice on financial management set out in paragraphs 50 to 53 and that good financial management is assigned to all senior management levels in the Council as well as councillors.

Capital Strategy

	xv)	Note that a review of the Council's Capital Strategy has been undertaken as detailed in Appendix 2.
	xvi)	Note that a review of the Council's MRP (Minimum Revenue Provision) Strategy has been undertaken as detailed in Annex 2.1.
	xvii)	Note that a review of the Council's Investment Strategy has been undertaken as detailed in Annex 2.2.

Flexible Use of Capital Receipts Strategy

	xviii)	Note the Council's Flexible Use of Capital Receipts Strategy as detailed in Appendix 3.
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General Fund Capital Programme

	xix)	Note the revised General Fund Capital Programme, which totals £367.41M (as detailed in paragraphs 2 to 6 of Appendix 4) and the associated use of resources.
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xx)	Note that £10.45M has been added to the General Fund programme, with approval to spend. These additions are detailed in paragraphs 12 to 31 of Appendix 4 and Annex 4.1.
xxi)	Note that a further £13.27M has been added to the General Fund programme, to an existing project which requires approval to spend in its entirety. This addition is detailed in paragraphs 16 of Appendix 4 and Annex 4.1.
xxii)	Note the removal of schemes from the capital programme totalling £13.22M as set out in paragraphs 12 to 31 of Appendix 4 and detailed in Annex 4.1.
xxiii)	Note the approval to spend £3.18M for the Outdoor Sports Centre, as set out in paragraph 10 and 16 of Appendix 4.
xxiv)	Note that the capital programme remains fully funded up to 2027/28 based on the latest forecast of available resources although the forecast can be subject to change; most notably with regard to the value and timing of anticipated capital receipts and the use of prudent assumptions of future Government Grants to be received.

Housing Revenue Account and Capital Programme

xxv)	Note that formal consultation on proposals for rent, service charge and landlord controlled heating charges began on 9 November 2022 and ended on 10 January 2023, although comments submitted after this date will be considered where possible. The outcome of the consultation is outlined in paragraphs 54 to 60.
xxvi)	Note that, from 1 April 2023, an average rent increase will be applied to dwelling rents of 7.0% in line with the rent increase cap set by Government, as detailed in paragraph 10 of Appendix 5, equivalent to an average increase of £6.07 per week in the current average weekly dwelling rent figure of £86.72 for Social rent, and £9.89 per week in the current average weekly rent for affordable rent of £141.27. Rents for Shared Ownership rents will also increase by 7%.
xxvii)	Note that an increase in weekly service charges of 9.0% will be applied from 1 April 2023, as detailed in paragraphs 16 to 19 of Appendix 5.
xxviii)	Note and recommend to council the Housing Revenue Account revenue estimates as set out in Appendix 5.
xxix)	Notes the 40 year Business Plan for revenue and capital expenditure set out in Annexes 5.1 and 5.3 of Appendix 5 respectively, that based on current assumptions are sustainable, maintaining a minimum HRA balance of £2.0M in every financial year in line with current policy. However, the S151 Officer has noted a need to review this policy for future budgets and increasing that balance from £2M over time to provide more of a necessary buffer against financial risks.
xxx)	Note the increase in landlord controlled heating charges set out in paragraph 21 of Appendix 5 and Annex 5.2.
xxxi)	Note the revised Housing Revenue Account (HRA) Capital Programme, which totals £292.24M (as detailed in paragraph 35 & 42 of Appendix 5) and the associated use of resources.
xxxii)	Note the capital projections in the HRA Capital Programme for 2022/23 to 2027/28 as detailed in paragraph 35 of Appendix 5, and that spend between 2022/23 and 2026/27 has been maintained within the control totals previously agreed, and adjusted for known slippages at Quarter 3.

COUNCIL

Council is recommended to:

General Fund Revenue

	i)	Note the budget consultation process that was followed as detailed in paragraphs 54 to 60.
	ii)	Note 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 1.
	iii)	Note the Equality and Safety Impact Assessment process that was followed as set out in paragraphs 61 to 64. The updated ESIA's and Cumulative Impact Assessment are available documents in the Members' Room.
	iv)	Note the forecast outturn position for 2022/23 as set out in paragraphs 26 to 28 of Appendix 1.
	v)	Approve the revised Medium Term Financial Strategy (MTFS) for the period 2023/24 to 2026/27 attached as Annex 1.1.
	vi)	Approve the 2023/24 General Fund Revenue Budget as detailed in Annexes 1.9 and Annexes 1.1(a) and 1.1(c) of the MTFS.
	vii)	Note the Executive's budget proposals are based on the assumptions detailed within the MTFS and that this includes for 2023/24 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)	Approve additional General Fund pressures totalling £28.22M in 2023/24, falling to £26.52M in 2026/27, as detailed in paragraph 53 of Appendix 1.
	ix)	Approve savings proposals totalling £22.03M are included in the 2023/24 General Fund Revenue Budget, reducing to £19.27M in 2026/27, as detailed in paragraph 57 of Appendix 1.
	x)	Delegate authority to the Executive Director for Corporate Services and Section 151 Officer, following consultation with the Cabinet Member for Finance and Change, to do anything necessary to give effect to the proposals contained in this report.
	xi)	Set the Band D Council Tax for Southampton City Council at £1,726.47 for 2023/24, a Net Budget Requirement of £221.45M and the Council Tax Requirement for 2023/24 at £115.77M as per Annex 1.2.
	xii)	Notes and endorses the Statement of the S151 Officer as set out in paragraphs 20 to 45 on the robustness of the budget and the adequacy of the council's reserves. In particular the precarious financial position of the authority, the high level of financial risk currently faced and the lack of adequacy of reserves in the light of these risks and that work must continue at pace to lower reliance on reserves as remaining unallocated reserves (estimated at £10.3M) will be exhausted in 2024/25 at the latest, and potentially earlier in 2023/24 should all the risks identified in this report materialise.
	xiii)	Note that work will continue to review opportunities and proposals to address the 2024/25 and future years budget shortfall and to help mitigate the high level of financial risk within the budget.

	xiv)	Note the estimates of precepts on the council tax collection fund for 2023/24 as set out in Annex 1.3.
	xv)	Delegate authority to the Executive Director for Corporate 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 Fire and Rescue Authority precept and the Police and Crime Commissioner for Hampshire precept.
	xvi)	<p>Agree that the following amounts be now calculated by the Council for the financial year 2023/24 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992; and</p> <p>determine in accordance with Section 52ZB of the Act that the Council's relevant basic amount of Council Tax for 2023/24 is not excessive in accordance with principles approved by the Secretary of State under Section 52ZC of the Act.</p> <p>a) £556,409,522 (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) £440,637,623 (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) £115,771,899 (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>d) £1,726.47 (being the amount at (c) above (Item R), all divided by the tax base of 67,057 (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>
	xvii)	Note CIPFA's code of practice on financial management set out in paragraphs 50 to 53 and that good financial management is assigned to all senior management levels in the Council as well as councillors.
Capital Strategy		
	xviii)	Approve the Council's Capital Strategy detailed in Appendix 2.
	xix)	Approve the Council's MRP Strategy detailed in Annex 2.1.
	xx)	Approve the Council's Investment Strategy detailed in Annex 2.2.
Flexible Use of Capital Receipts Strategy		
	xxi)	Approve the Council's Flexible Use of Capital Receipts Strategy detailed in Appendix 3.
General Fund Capital Programme		
	xxii)	Approve the revised General Fund Capital Programme, which totals £367.41M (as detailed in paragraphs 2 to 6 of Appendix 4) and the associated use of resources.
	xxiii)	Approve addition and spend of £10.45M which has been added to the General Fund programme. These additions are detailed in paragraphs 12 to 31 of Appendix 4 and Annex 4.1.
	xxiv)	Approve addition of £13.27M which has been added to the General Fund programme, to an existing project which requires part approval to spend, as per (xxiv). This addition is detailed in paragraphs 16 of Appendix 4 and Annex 4.1.
	xxv)	Approve the removal of schemes from the capital programme totalling £13.22M as set out in paragraphs 12 to 31 of Appendix 4 and detailed in Annex 4.1.

xxvi)	Approve the spend of £3.18M, £1.68M in 2022/23 and £1.50M in 2023/24 to progress delivery of the Masterplan of Improvements to Southampton's Outdoor Sports Centre, as detailed in paragraphs 10 and 16 of Appendix 4.
xxvii)	Note that the capital programme remains fully funded up to 2027/28 based on the latest forecast of available resources although the forecast can be subject to change; most notably with regard to the value and timing of anticipated capital receipts and the use of prudent assumptions of future Government Grants to be received.

Housing Revenue Account and Capital Programme

xxviii)	Note the consultation process that was followed for rents, service charges and landlord controlled heating charges as detailed in paragraphs 54 to 60.
xxix)	Approve that, from 1 April 2023, an average rent increase will be applied to dwelling rents of 7.0% in line with the rent increase cap set by Government, as detailed in paragraph 10 of Appendix 5, equivalent to an average increase of £6.07 per week in the current average weekly dwelling rent figure of £86.72 for Social rent, and £9.89 per week in the current average weekly rent for affordable rent of £141.27. Rents for Shared Ownership rents will also increase by 7%.
xxx)	Approve that an increase in weekly service charges of 9.0% be applied from 1 April 2023, as detailed in paragraphs 16 to 19 of Appendix 5.
xxxi)	Approve the Housing Revenue Account revenue estimates as set out in Appendix 5.
xxxii)	Approve the 40 year Business Plan for revenue and capital expenditure set out in Annexes 5.1 and 5.3 of Appendix 5 respectively, that based on current assumptions are sustainable, maintaining a minimum HRA balance of £2.0M in every financial year in line with current policy. However, the S151 Officer has noted a need to review this policy for future budgets and increasing that balance from £2M over time to provide more of a necessary buffer against financial risks.
xxxiii)	Approve the increase in landlord controlled heating charges as detailed in paragraph 21 of Appendix 5 and Annex 5.2.
xxxiv)	Approve the revised Housing Revenue Account (HRA) Capital Programme, which totals £292.24M (as detailed in paragraph 35 & 42 of Appendix 5) and the associated use of resources.
xxxv)	Approve the capital projections in the HRA Capital Programme for 2022/23 to 2027/28 as detailed in paragraph 35 of Appendix 5, and that spend between 2022/23 and 2026/27 has been maintained within the control totals previously agreed, and adjusted for known slippages at Quarter 3.

REASONS FOR REPORT RECOMMENDATIONS

1.	The Council is a large and complex organisation managing the delivery of a vast range of services either directly or through/with others. Its core purpose is to deliver its statutory functions, improve the quality of life for residents and effective financial management is key to this. It is important that Members are aware of the major financial opportunities and challenges and that they make informed decisions. The Council regularly revises its Medium Term Financial Strategy (MTFS) so that the financial position is clear for budget proposals to be drawn up for the forthcoming year, and to ensure financial planning follows the ambition as set out in the Council's Corporate Plan. The budget information presented is set out in a way that shows the resources allocated within the key themes of the Corporate Plan.
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2.	The Capital Programme is reviewed on a quarterly basis in accordance with the Council's Capital Strategy. Programme updates are reported to Cabinet and Council for approval. This is required to enable schemes in the programme to proceed and to approve additions and changes to the programme. Major capital projects are undertaken over a number of years so by setting a clear 5 year programme works can be undertaken in a timely manner to assist the Council in achieving its aims and priorities, over both the short and medium term.
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 22 February 2023.
5.	Part of setting the General Fund Budget and Medium Term Financial Strategy requires a view to be taken on the revenue cost of capital to the Council and proposals have been considered in order to ensure the most appropriate use of capital resources in meeting the Council's priorities. The overall financial position is considered when formulating the budget and the financing of the capital programme. An updated General Fund Capital Programme is included as Appendix 4 to the report, and the latest position is included in the Medium Term Financial Forecast Model. The update of the capital programme is undertaken after consideration of value for money and alternative options. Every £1M needed to be borrowed to finance capital spend has an impact of around £0.08M in the revenue budget for capital financing. Every effort will be made to identify sources of funding as an alternative to borrowing for financing the programme. Prudential Indicators, including the forecast share of capital financing of the Council's net budget is reported in the Capital Strategy at Appendix 2 of this report.
6.	This report sets out the HRA revenue budget for 2023/24 and the 40-year HRA business plan covering the period 2023/24 to 2062/63. The increases to rents, service charges and heating charges are an integral part of the revenue estimates for 2023/24.

DETAIL (Including consultation carried out)

GENERAL FUND REVENUE BUDGET AND MEDIUM TERM FINANCIAL STRATEGY

7.	Details of the Revenue Budget for 2023/24 and the updated Medium Term Financial Strategy 2023/24 to 2026/27 are given in Appendix 1 and annexes thereto.
8.	A report providing an update on the budget position for 2023/24 was presented to Cabinet on 8 November 2022. Appendix 1 provides an update to that report, giving details of the Council's financial resources following the November 2022 Autumn Statement and 2023/24 provisional local government finance settlement and sets out the final proposals in respect of budgetary pressures and savings, following review and further work on the initial proposals and taking into account feedback received from the consultation and the latest financial monitoring position.
9.	The position reported in November 2022 showed a budget shortfall for 2023/24 of £28.90M. The updated position is a balanced budget for 2023/24 and forecast budget shortfalls of £21.22M (2024/25), £22.56M (2025/26) and £24.79M (2026/27) respectively. A summary of all of the changes with respect to 2023/24 since the shortfall position reported in November 2022 is provided in paragraph 70 of Appendix 1. £21.99M of reserves have been used in

	<p>balancing the 2023/24 revenue budget. This significant depletion of reserves has a severe impact on the Council's financial resilience and sustainability – see the S151 Officer's statement of robustness of estimates and adequacy of reserves starting at paragraph 20 for further details. The future budget shortfalls combined with a lack of reserves represent a major challenge requiring considerable continued focus and work by the Cabinet and the Executive Management Team.</p>
10.	<p>The forecast budget shortfall for 2023/24 set out in November was based on a 'core' council tax increase of 1.99% and no additional Adult Social Care precept, as assumed in the February 2022 MTFS. The Government's November 2022 Autumn Statement, and later confirmed in the local government finance settlement, announced increases of up to 3% in core council tax and 2% for the Adult Social Care precept could be applied without the need for a local referendum. The recommendations in this report are to apply the maximum increases available for both the core council tax and Adult Social Care precept for 2023/24, a combined increase of 4.99%, to help meet the service demand and other pressures the Council faces.</p> <p>It should be noted that the published figures of local government funding support make an assumption that all councils will use the maximum possible council tax rise, and by implication, the Government's settlement assumes 5% for councils such as Southampton. It is of note that Council Tax provides a regular and ongoing financial benefit, whilst reserves by their nature are a one off source of financing only, and excessive reliance on reserves indicates the budget has fundamental underlying issues of sustainability. Not applying an increase to council tax, as occurred for the 2022/23 budget when council tax was frozen, means a permanent loss of that opportunity for the revenue to the council, worth £1.1M per 1% increase.</p> <p>Under the local government finance policy statement, the same council tax flexibilities will apply for Southampton in 2024/25, but an increase of 1.99% for that and future years has been assumed within the MTFS.</p> <p>The final council tax bills will include precepts made by the Hampshire and Isle of Wight Fire and Rescue Authority and the Hampshire Police and Crime Commissioner, which impacts on the final charge. Hence, the final increase residents see on their bills may differ from the 4.99% charge from Southampton City Council.</p>
11.	<p>In the Local Government Finance Policy Statement issued a week before the settlement, the Government confirmed that no reforms to the local government finance system will be implemented during the remainder of this parliament. 2025/26 would therefore be the earliest that any changes would be made. For the purposes of financial planning, the MTFS assumes that the Council will be no better or worse off in funding terms from any changes to the local government finance system. Similarly, for the purposes of the MTFS the financial impact of the Adult Social Care Charging Reforms, announced in 2021 and now delayed until October 2025, are assumed to be neutral pending further information on costs and funding. Due to uncertainty over future funding as well as spending and inflationary pressures being far more volatile than ever before, the MTFS will be kept under regular review.</p>
12.	<p><u>GENERAL FUND CAPITAL PROGRAMME</u></p>
13.	<p>Details of the General Fund capital programme for 2022/23 to 2027/28 are given in Appendix 4 and annexes thereto.</p>
14.	<p>Appendix 4 highlights the proposed changes to the General Fund capital programme from the last reported monitoring position to Cabinet in February 2023. The net result of the changes is that the programme has increased by £11.17M. There has been a comprehensive capital review undertaken, considering the significant financial pressures being faced. National</p>

	<p>economic factors are taking their toll on the delivery of the capital programme, such as rising inflation increasing the cost of construction and interest rate rises making it unsustainable to continue the same levels of borrowing to fund the programme. This has meant that a number of projects will be rephased/delayed and alternative funding sources to borrowing are being considered. The review has resulted in £13.22M being removed from the programme and this has been offset largely by the additional investment being made at the Outdoor Sports Centre due to a successful Levelling Up Fund £20M grant award.</p>
15.	<p>The capital budget proposals put forward as part of this report reflect the anticipated needs of the Council over the next 5 years with investment to deliver the aims within the agreed Corporate Plan. Given the pressure on resources available to fund to the programme, priority has been given to reviewing existing budgets and delivery, which predominately is within the first 3 years of the programme. During 2023/24 further work will be undertaken to review years 4 and 5 to fully establish the needs of the Council and assess future funding. The capital programme will be kept under regular review, both in terms of future affordability and delivery.</p>
	<p><u>CAPITAL STRATEGY</u></p>
16.	<p>Appendix 2 details the updated capital strategy for approval. The capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.</p>
	<p><u>FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY</u></p>
17.	<p>Appendix 3 details the flexible use of capital receipts strategy for approval. The Secretary of State issued a Direction in March 2016, giving local authorities greater flexibilities to use capital receipts to finance revenue expenditure, which has since been extended until 2024/25. This allows local authorities to treat qualifying expenditure on transformation projects as capital expenditure and to fund it from capital receipts received after April 2016. To utilise the Direction, the Council must maintain a Flexible Use of Capital Receipts Strategy and include this as part of the annual budget setting report.</p>
	<p><u>HOUSING REVENUE ACCOUNT BUDGET AND CAPITAL PROGRAMME</u></p>
18.	<p>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 2,000 homes for leaseholders. Further information can be found in Appendix 5 on the HRA revenue budget 2023/24 and 40-year operating account. The recommendations in this report include increasing rents by 7.0% and service charges by 9.0% for 2023/24.</p>
19.	<p>Appendix 5 highlights the proposed changes to the HRA capital programme, noting that spend between 2022/23 and 2026/27 has been maintained within the control totals previously agreed.</p>
	<p><u>STATEMENT OF THE SECTION 151 OFFICER IN ACCORDANCE WITH THE LOCAL GOVERNMENT ACT 2003 – ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES</u></p>
20.	<p>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. This statement is longer than normal, because of the considerable financial risks the authority now faces.</p>
21.	<p>This statement concentrates on the General Fund budget, the Housing Revenue Account and the Capital Programme, but in addition it also considers key medium-term issues faced by the</p>

	Council. The scale of the financial challenge the council now faces should not be underestimated.
22.	The Council finds itself in a precarious financial position at a time when many risks are faced which will potentially weaken its finances further still. The Council is spending unsustainably, applying reserves (of £20.6M) as a one off short-term measure. Projections for our unallocated Medium Term Financial Risk (MTFR) Reserve show that this will expire in 2024/25, and potentially sooner if savings plans are not achieved and/or overspending continues. There is a major risk of the Council's finances being critically impacted to the point that a balanced budget will be challenging to achieve.
23.	While the authority has seen very large shortfalls of £20M or more before to address in its annual budget setting process during the period of Government austerity measures, the context was quite different with low inflation, low interest rates and a growing economy both locally, nationally and globally. In the current context of high inflation, increasing interest rates, increasing service demands driven by the cost of living, and an economy widely accepted to be entering a recession, managing a large budget shortfall presents a serious and unprecedented challenge which, together with substantial in-year pressures reported elsewhere on this agenda, will mean what is almost certain to be the most severe test of the authority's financial resilience and sustainability.
24.	<p>The importance of good financial management and the need for prudent and realistic levels of reserves and contingencies has been brought sharply into focus by extensive budget pressures experienced during 2022/23 as a consequence of a variety of national issues, including (but not limited to):</p> <ul style="list-style-type: none"> • Unusually high levels of inflation and the cost of living crisis impact • Very sharp increases in the costs of energy for the Council • Higher than expected nationally set pay awards • Sharply rising interest rates, after a prolonged period of very low interest rates • Continuing high demand for Council services, especially in the field of social care for both Adults and Children, but also other key areas such as Home-to-School Transport. • Inflation has also impacted on contractual costs and continues to influence the costs arising from the capital programme • On-going effects of Covid-19, in terms of the demands for local services and on the Council's income streams
25.	The context for setting the 2023/24 budget is therefore the pressures being faced in the current year, and it is important to highlight that as at Quarter 3 of 2022/23, the forecast is for an overspend of £10.3M for the year, after taking into account £4.7M of in-year savings. The key areas of overspending fall within Children & Learning and Health, Adults and Leisure, with a total forecast of £15.6M for 2022/23.
26.	Any further increase in the overspend for 2022/23 must be mitigated, as this would threaten the already precarious financial position faced. As part of that mitigation, the Council has operated within an Essential Spend only regime since August 2022, in recognition of the overspend forecast on its budget and the risk of following other authorities such as Slough and Northamptonshire into a situation where a S114 notice was necessary. When formulating the budget, I have recommended the Administration, when facing any new decision, to limit spending as much as possible to the criteria for Essential Spend, and to consider any options which have been tabled that could go beyond the savings identified in this report, to help lower the reliance on reserves and help protect against a risk of a S114 notice being needed in 2023/24, whereby the S151 Officer states spending exceeds the resources for funding it and limiting expenditure to statutory items only.

27.	In relation to the 2023/24 General Fund Revenue budget, it relies on £22.0M of savings, income and efficiency targets in order to be a balanced budget. That represents an ambitious total for the Council's net budget of £221.5M and any non-delivery is an obvious risk. The risk is also heightened significantly by a much reduced level of available reserves and contingency budget.
28.	A review and revision of budget savings for 2022/23 has been undertaken to ensure implementation plans for activities where savings can be achieved albeit later than originally anticipated and in addition work is in progress to provide re-assurance on savings plans for 2023/24. This is needed as in the current financial year only 39% of the 2022/23 agreed budget savings are expected to be achieved. Therefore, a major step change in the way the Council oversees and ensures delivery of proposed savings in 2023/24 is required given their size and timing and the budget's critical reliance on them. Non-delivery of savings in 2023/24 is a major risk and the savings expected are of such a scale that this could easily undermine the financial position of the authority, potentially leading to drastic action being needed.
29.	<p>In addition to the ongoing impact from the pressures being experienced in 2022/23 listed above, and the risks around excessive reliance on reserves to balance the budget and what may happen if planned for savings aren't achieved, the budget must also consider the following risks:</p> <ul style="list-style-type: none"> • There continues to be a possibility that income derived from both council tax and business rates will be adversely affected as the UK economy may be entering into a period of recession and adjusts to both Brexit and any longer-term effects of the pandemic. All aspects will be kept under review. • The continued effect of the cost of living crisis on households' finances may have an impact on council tax and housing rent collection rates. • The local government finance settlement from Government was for one year only. Uncertainty with Government funding remains an issue for 2024/25 onwards. • Changes to the way Government distributes the national 'funding pot' via the long delayed Fair Funding Review means there is a risk funding may be reallocated away from Southampton in future, as well as a potential benefit should the Council gain from any changes. As per the Government's policy statement, funding reforms or changes in funding distribution will not be implemented until 2025/26 at the earliest. • There is also a potential risk of a loss of the business rate growth to the authority from any reforms or updates to the Business Rate Retention Scheme that currently 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. The local growth in business rates is worth £5.6M to the Council's budget in 2023/24. • 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. • Pay inflation remains a significant risk, with the national pay settlement for local council staff for 2022 adding around 5.7% to our pay bill (all staff were given a £1,925 flat rate increase), and the continuing high level of inflation adding to pressure for another big increase in 2023. The proposed budget for 2023/24 makes provision of around 4% (or £4.9M) for a pay increase. Any sum beyond that will have to rely on what is available from the central contingency of £5.2M (which includes £2M to cover potential

redundancy costs). A repeat of the 5.7% increase seen in 2022 is not affordable to the Council without additional budget reductions.

- The adequacy of budget provision made for non-pay inflationary costs. The authority has a policy of only increasing non-pay budgets where they relate to external contracts, but even allowing for that 2023/24 has seen an increase of £10.6M for contract related budgets.
- Any further increase in the costs of energy. The council is facing increases of £3.0M on its non-school General Fund gas and electricity costs for 2023/24.
- The potential for further increases in interest rates which would impact on borrowing costs.
- There are significant cost pressures arising from changing demographics and a growing, ageing population. These lead to increased demand for adult and children services, as well as other services across the Council.
- Without further mitigations to represent an ageing population and more complex needs, Adult Social Care may not have adequate budget provision for increased demand that is likely to occur across future years as a consequence of these demographic developments. Mitigating increased Social Care demand due to an ageing population and post Covid pressure on the NHS and hospital discharges requires an enhanced focus on promotion of independence strategies such as homecare rather than residential and nursing care, reablement, telecare and voluntary/family support so as to avoid increased cost of care packages to the Council as well as ensuring that Continuing Health Care processes are robust to ensure that the split of costs between Health and Social Care is equitable. An Adult Social Care transformation strategy is currently being formulated to address these issues, but faces considerable challenges as it does across the Country.
- Of particular concern going forward is demand within Children's Social Care, given the experience during 2022/23 of the numbers of Children Looked After, demand pressures and the costs of residential care and agency staffing to cope with demands faced. Assumptions have been made regarding reductions in the numbers of Children Looked After and agency staff needed going forward, and achieving these assumptions will be very important to delivering spend in line with the budget next year. Most previously planned budget reductions have now been removed from the budget.
- The implementation of the Government's adult social care charging reforms announced in September 2021 has been delayed. The reforms are now expected to be implemented in October 2025. The additional costs of implementing these social care reforms are uncertain although modelling suggests significant additional costs locally beyond the original funding announcement by Government.
- The process that has developed out of discharging patients from hospital under COVID-19 may also mean the risk of additional costs to the Council. Patients have been discharged as soon as possible from hospitals, which has tended to mean additional costs for residential and homecare incurred by the Council. Whilst the NHS has provided funding support to assist during the pandemic, the costs for 2023/24 and the longer term consequence may fall on the Council.

30.	<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 2023/24 under the proposed budget are:</p> <ul style="list-style-type: none"> • A forecast available balance within the General Fund as at the end of 2023/24 of £10.1M • A forecast uncommitted balance in the Medium Term Financial Risk (MTFR) Reserve as at the end of 2023/24 of £10.3M • A contingency budget of £5.2M for 2023/24 (which includes £2M cover for potential redundancy costs).
31.	<p>Government did encourage local authorities to apply reserves to help address their budget pressures, when it made a policy announcement shortly before Christmas. However that does need to be balanced against the risks and uncertainty the council faces and as S151 Officer I must take a view on the adequacy of reserves taking those factors into account too.</p> <p>The heavy reliance on the MTFR reserve to balance the 2023/24 budget is a major concern. Reserves should be applied more sparingly than such a large amount, and the extensive use of this reserve to balance the budget is a significant 'red flag' highlighting the authority has an unsustainable budget. This inherent risk must be acknowledged in using one-off resources to support the proposed budget for 2023/24. Nor is this a new trend. £18.2M of one-off resources were planned for use to support the 2022/23 budget (other than for cash flow purposes). Based on the current in-year forecast, a further call of £10.3M is likely to be needed to meet the estimated overspend, taking the total use of reserves in 2022/23 to £30.4M.</p>
32.	<p>The forecast use of earmarked reserves is set out in Appendix 1 and the forecast balances for earmarked reserve over the period of the MTFS are shown in Annex 1.1.</p>
33.	<p>Reserves can only be used once and their use does not address the underlying unsustainability of the Council's budget. Note should be taken that over the last 5 years the council will have materially reduced its earmarked reserves, reducing from £86M in 2018/19 to a projected £21M at the end of 2023/24, a very sizeable and rapid decline, indicative of an authority with major and unresolved budgetary problems. This usage has seriously reduced the Council's financial resilience at a time of heightened risks and is a major factor in the council's much reduced financial strength when facing the risks outlined. I must stress the need for progress to continue with measures to balance the budget in 2023/24 without such a heavy drawdown from reserves. Work must continue at pace to identify further proposals to realise the most benefit in year and to hence reduce reliance on reserves, the less financial risk the council will then face and resilience will be improved.</p>
34.	<p>As S151 Officer I consider the estimates for 2023/24 to be robust subject to the risks set out above. However, given the scale of the challenge I need to ask services to consider and plan for mitigation actions to offset pressures, if in-year, it is evident that savings are not being achieved of the scale the budget assumes and to the time.</p> <p>I would assess the level of reserves as inadequate to cover the risks outlined and potential demands and this will need addressing going forward.</p>
35.	<p>As well as recommending ongoing action to implement additional savings to offset the considerable use of the MTFR reserve, the council strategy must be to replenish reserves. There is more detail on this on the Medium Term Financial Strategy (MTFS) document attached at Annex 1.1 to this report.</p>
36.	<p>The contingency sum of £3.2M set aside in the proposed 2023/24 budget (when excluding £2M cover specifically for potential redundancy costs) is reduced compared with</p>

	<p>the sum allocated to contingency in previous years (for example £4.6M in 2022/23). Ideally, in the light of the risks faced, contingency should be set at a similar sum to 2022/23, and with justification for an even higher sum, but given budgetary pressures this has not been possible. Reducing the contingency increases risk and to help compensate, it is more important than ever that spending remains within budget allocations for 2023/24 and every effort should be made to ensure that. The 2023/24 budgets have been discussed with the Executive Management Team for transparency and to confirm they accord with service plans for 2023/24.</p>
37.	<p>The estimated budget gap for 2024/25 is £21.2M, which reinforces the need for continued work to address the major budget challenge the Council faces. Members will need to give serious consideration as to whether increasing council tax by the maximum sums permissible without the need for a local referendum, would best protect the financial sustainability of the council. Currently, only the 'core' increase of 1.99% is assumed in the MTFs from 2024/25, but additional flexibilities were given for council tax by Government in the local government finance policy statement, allowing for up to 3% core rise and a further 2% for the Adults Social care precept.</p> <p>The Council needs to consider its 'Essential Spend' criteria, whereby spend is limited to service failure, legal requirement and contractual commitments, and potentially reinforce and widening these during 2023/24 to respond to the financial challenges. At the same time, work must continue to grow our local economy, council tax and business rates base to support local people and businesses.</p>
38.	<p>The authority is in a very uncertain position financially, and one where its financial resilience is severely weakened to the point where, in my opinion, a S114 notice is a major risk during 2023/24. The MTFs is not currently sustainable and further action is urgently required to develop additional savings plans to reduce spending in 2023/24 and beyond. The agreement of this proposed budget therefore will not mark an 'end' to the budget work for 2023/24, as work will need to continue during the course of the financial year to further reduce spend and mitigate the risks the Council faces. Progress is underway with service transformation efforts, in particular work in Children's services, Adults services (including the Integrated Commissioning Unit) and a programme looking at organisational wide change. In order to maximise the potential from economic growth, and the subsequent benefits of Council Tax and Business Rates, the 'Renaissance Board' has been established. This, and more efforts on balancing the budget without recourse to one off funding sources, is essential if the Council is to have a stable financial footing into the future.</p>
39.	<p>Very stringent, careful and diligent management of the Council's financial resources will be necessary to ensure the Council is not required to undertake the severe forms of actions on the General Fund, such as S114 notices and reliance on extra-ordinary measures of help from Government that an increasing number of councils are having to resort to in order to balance their budgets.</p>
	<p><u>DSG and schools</u></p>
40.	<p>The deficit the authority has within the ring-fenced Dedicated Schools Grant (DSG) must also be highlighted as a further risk. This currently stands at an estimated £10.2M by the end of 2022/23. This deficit would normally need to be offset against other revenue reserves, effectively further reducing our General Fund reserves (in practice a further call on the MTFR reserve – currently uncommitted balance forecast at £10.2M at the end of 2023/24). However, Government has extended a statutory override of the normal accounting practice, which means from 2023/24 until 2025/26 a deficit will not be counted against the Council's General</p>

	Fund reserves. 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.
41.	Outside of the DSG deficit, individual schools can also incur a deficit. The total of these deficits amounted to £4.6M according to our latest 2022/23 forecast. Any deficit outstanding at a point a school is required to become an academy falls on the Council, as opposed to remaining with the school. It is therefore important, to reduce risk, that schools have plans to eliminate their deficits. This year, 3 notices of concern have been issued to schools on their budgets, and 4 other schools do not have a deficit recovery plan agreed with the S151 Officer. Financial advisory support is available to all schools with resolving their deficit, but as S151 Officer I must also act to protect the Council and council tax payers from further losses and for schools who continue to either not have a deficit recovery plan or do not abide by a plan, further action must be considered.
	<u>HRA</u>
42.	Turning to the Housing Revenue Account (HRA), this will also face major challenges to its financial standing, both in 2023/24 and in the longer term. The HRA can only be funded via the rents and other housing related charges it generates, being a ring-fenced account. The same economic pressures faced on the General Fund, coupled with the decision made in February 2022 to freeze rents and service charges for 2022/23 (when most authorities implemented a 4.1% rise), has presented major financial challenges to the HRA. The one year freeze in rents has meant that over 40 years, an estimated £157M of income has been foregone. The HRA must not only present a balanced budget for 2023/24, but it must also demonstrate that spending plans are affordable over a 40 year horizon to manage its resources and maintain the housing stock in good condition for tenants (and meet legislative obligations in respect of landlord responsibilities written into current and forthcoming legislation).
43.	The majority of expenditure pressures being experienced in 2022/23 within the HRA are ongoing in future years, specifically in relation to wage inflation, significant increases in the cost of building materials used for repairs, and significant increases in energy costs for communal lighting, supported housing and Landlord Controlled Heating. Interest rate rises will also have a significant, longer-term impact on the 40 year business plan.
44.	Despite the proposed 7% increase in rents for 2023/24, financial challenges continue for the HRA. Where pressures have been quantified these are built into the model, however a number of risks are not fully quantified and the extent of these pressures will determine future savings plans within the HRA, which will need to be fully worked up and concluded. I have also recommended the Council's policy surrounding the HRA balance be reviewed, with a view to increasing from £2M over time to provide more of a necessary buffer against the risks it faces and the 40 year business plan takes this into account. The financial pressures will also mean the HRA capital programme will need to be under extra scrutiny over what is affordable and how quickly any new investment can be made.
45.	To conclude; On the General Fund: The council is reliant on a total drawdown of £20.6M from reserves to balance the 2023/24 budget, leaving only a forecast £10.3M unallocated balance in the MTFR reserve. Given the significant risks, particularly of further demand and cost of living pressures, added to the risks of non delivery of savings, in my view this is inadequate. Use of reserves to such an extent also compromises the capacity for 'invest to save' and to achieve savings through transformation work. Financial resilience is much weakened by depleting the MTFR reserve, and a S114 notice is foreseeable and a major risk during 2023/24. I would stress the

need for the authority to take all possible action to reduce the financial risks it faces by continuing with the 'essential spend only' principles, avoiding new commitments where possible and continuing to make savings plans and also plans to reduce budget pressures in-year. An obvious risk is in delivery of the £22M of savings included in the budget, and a rigorous approach to realising these savings, or achieving alternative savings of equal value, will be essential to minimising risks of significant overspending with little spare remaining in reserves to cover it.

On DSG and Schools: The current forecast deficit with the DSG stands at £10.2M and this will fall on the authority to cover from 1 April 2026 unless the deficit is resolved by then. Plans must therefore be drawn up, with clear monitoring, to ensure a realistic timetable exists for repaying this sum. With regard to schools themselves, the cumulative deficit is £4.6M from 14 schools (3 with no agreed school deficit recovery plan), and this represents an upwards trend from the 2021/22 position of £3.6M deficit. Should schools with a deficit be forced to become an Academy this deficit is transferred to the council. Further action is therefore needed to turn around this trend of increasing deficits and all schools must have an agreed financial recovery plan.

On HRA: The 7% rent rise, coupled with additional income for service charges, improves the financial position of the HRA following a rent freeze in 2022/23. HRA income matches expenditure for 2023/24, but 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 a number of 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. Meeting this challenge will mean making further savings and is likely to mean difficult choices on investment with capital resources, in order to maintain financial stability in the long term. In addition, because of the uncertainty and risks, a review is needed of the £2M working balance held in the HRA, and an assessment of how quickly an increase in this sum could be accommodated.

A key challenge is to balance long term objectives and short term need. Recent and ongoing investment in prevention and early intervention, largely in Social Care, will deliver better outcomes and ultimately more efficient service delivery. The corporate goal of Strong Foundations for Life will depend on achieving longer term change. Initiatives such as the Renaissance Board, the Affordable Homes Framework, the skills plans to attract new investment in future growth areas and focus on the Southampton Pound, can help drive growth in our goal to be 'A Prosperous City'. The delivery of the transformation plans described in paragraph 38 will need continued vigilance, focus and support.

Financial Resilience (including the CIPFA Resilience Index)

46. The Chartered Institute of Public Finance and Accountancy (CIPFA) publishes a financial resilience index, designed to support the local government sector as it faces continued financial challenge. It has a series of 9 primary indicators that compare local authorities with each other across issues such as level of and movement in reserves, level of gross debt and proportion of budget spent in areas experiencing the most demand pressure (adults and children's social care) and therefore most likely to be at risk of overspending. It applies current and past data rather than future estimates.

47. The latest data used in the financial resilience index published in December 2022 is for 2021/22. The index indicates the Council has moved to the higher end of the financial risk spectrum for its level and use of reserves. However, 2021/22 and 2020/21 reserves figures have been impacted by COVID-19, for example by the carry-forward of COVID related

government grants, so the indicators may not be fully representative of the underlying position. It should also be noted that the City Council comes out at high risk on the relative proportion spent on social care compared to similar authorities and this is seen as a significant threat to our financial sustainability (as it is largely demand driven and where a higher than average proportion of the budget adds to the financial risks).

48. Table 1 below shows that, even assuming no further drawdown of the MTFR reserve is necessary, either for the 2022/23 overspend or for in-year budget pressures and risks in 2023/24, the reserve expires completely in 2024/25. Given budget risks, as outlined in paragraphs 20 to 45 above, there is every chance reserves will be called upon before 2024/25 and hence they could be fully utilised ahead of this point. This would mean no cover from reserves for large and uncertain financial risks, a critical financial position to reach. To avoid that, and a risk of Government intervention being necessary, additional savings will be necessary.

Table 1: Uncommitted MTFR reserve projection

	2023/24 £M	2024/25 £M
Budget Shortfall before use of reserves	20.62	21.22
Less: use of uncommitted reserves*	(20.62)	(10.31)
Remaining Budget Shortfall	0.00	10.91

*Excluding £10.1M in General Balances for unforeseen events

49. Our external auditors (Ernst & Young LLP) have a statutory responsibility to review the financial standing of the authority, and the financial risks it faces. The extensive reliance on reserves to balance the budget for 2023/24, coupled with the fact this creates a 'cliff edge' for 2024/25 when reserves will run out, is likely to receive formal comment from them.

CIPFA Financial Management Code

50. The CIPFA Financial Management Code (FM Code) sets out the standards of what good financial management for local authorities should look like. The FM Code was introduced because of the exceptional financial pressures faced by local authorities in recent years which have revealed concerns about fundamental weaknesses in financial management and the ability of some organisations to maintain services in the future. These pressures have been heightened recently with national economic factors contributing. Some notable high profile cases such as Northamptonshire and Croydon councils have added to the need to ensure consistent standards apply.

51. CIPFA considers application of the FM Code to be the collective responsibility of each authority's organisational leadership team. For the purposes of the code the 'leadership team' is defined as the collective group of elected members and senior officers. Therefore, it will include full Council.

52. It is important to note, also, that the financial management standards are minimum standards. The underlying principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.

53. The 6 Principles of Good Financial Management set out in the FM Code are:
1. Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
 2. Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
 3. Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
 4. Adherence to professional standards is promoted by the leadership team and is evidenced.
 5. Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
 6. The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

More detail is given in Annex 1.1 f) to the Medium Term Financial Strategy. A self assessment on compliance against the principles of the Code was reported to the Governance Committee on 14 February 2022, where it was highlighted that updates would be given through the Annual Governance Statement. One key action identified was around developing plans to address future budget shortfalls, to ensure plans were longer term than one year ahead for balancing the budget and helping with financial stability for services. This remains a challenge for several reasons. The lack of certainty with funding does not help, with only a one year settlement from Government provided for 2023/24. More fundamentally, with the scale of the cost of living crisis, energy and fuel cost rises, higher than expected pay awards, sharp rise in interest rates all adding to future budget pressures and combining to make setting a sustainable budget and reducing future budget shortfalls (as identified via the MTFS) more challenging than ever. With a total new net drawdown on the MTFR reserve of £22.4M in the 2023/24 budget and significant future budget shortfalls starting at £21.2M in 2024/25, the authority has much more to do to promote financially sustainable public services.

	<u>BUDGET CONSULTATION</u>
54.	<p>The Cabinet's initial budget proposals for 2023/24 were set out in the update on budget forecast for 2023/24 and savings plans report of 8 November 2022. A public engagement exercise was undertaken with residents and stakeholders on specific proposals between 9 November 2022 and 10 January 2023.</p> <p>This year the proposals in the questionnaire were arranged over 3 sections:</p> <ul style="list-style-type: none"> • Removal of the one-month council tax exemption for empty and unfurnished properties • Energy cost efficiency through the reduction of street lighting and switching to LED lighting • Increase in service charges, rent, and landlord controlled heating costs in council owned homes <p>The aim of this engagement exercise was to:</p> <ul style="list-style-type: none"> • Communicate clearly to residents and stakeholders the initial budget proposals for 2023/24 • Ensure any resident, business or stakeholder who wished to comment on the proposals had the opportunity to do so, enabling them to raise any impacts the proposals may have • Allow participants to propose alternative suggestions for consideration which they feel could achieve the objectives in a different way
55.	<p>Any that could impact the way that residents or customers review or experience a service of the council were subject to an Equality and Safety Impact Assessment (ESIA). A Cumulative Impact Assessment was also developed in order to review the overall impact of the savings proposals 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. These impact assessments were published alongside the public engagement exercise.</p>
	<u>Summary of Consultation Feedback</u>
56.	<p>The Budget Consultation had 673 responses which compares favourably with response levels in recent years.</p>
57.	<p>82% of respondents agreed with the proposal to remove the one-month Council Tax exemption for empty and unfurnished properties, with 10% disagreeing. 67% of respondents agreed with the proposals relating to streetlighting, with 27% against.</p>
58.	<p>Overall agreement with the three housing-related proposals ranged from 56% to 69%, with between 17% and 23% against. However, between 52% of tenants and 44% of respondents with landlord controlled heating disagreed with the proposal to increase service charges, with 52% of tenants and 67% of those with landlord controlled heating disagreeing with the proposals to increase the landlord heating control charge. For housing tenants and respondents with landlord controlled heating, agreement with the proposal to increase rents in line with the Government cap was 50% and 59% respectively, with 68% and 59% (respectively) stating this may have a negative impact on them.</p>
59.	<p>Throughout the consultation questionnaire, respondents were given the opportunity to expand on comments, impacts, suggestions and alternatives - these will be taken into consideration and actions taken as appropriate.</p>
60.	<p>A full analysis of the public engagement exercise feedback is included in Members' Room documents.</p>

<u>EQUALITY AND SAFETY IMPACT ASSESSMENTS</u>	
61.	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.
62.	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.
63.	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' Room documents.
64.	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' Room documents.
<u>RESOURCE IMPLICATIONS</u>	
<u>Capital/Revenue</u>	
65.	The capital and revenue implications are fully detailed within the report.
<u>Property/Other</u>	
66.	There are no specific property implications arising from this report other than the schemes already referred to within Appendix 4 and Appendix 5 of the report.
<u>Staffing Implications</u>	
67.	A significant proportion of the Council's expenditure is on employee costs. Given the level of savings to be achieved it is inevitable that the draft proposals will have some impact on staff costs and staff numbers. Early indications are that the proposals set out in this report may result in a reduction of around 52 full time equivalent (FTE) posts, of which 42 FTE posts are currently vacant. This will be done primarily via service restructures where appropriate and fully involve trade unions as appropriate.
<u>LEGAL IMPLICATIONS</u>	
68.	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.

69.	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.
70.	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.
71.	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 2023 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.
72.	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.
73.	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.
74.	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 in February.
75.	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.
76.	Further detailed legal considerations relating to the setting of a lawful budget are set out appendix 6, which Members are directed to have regard to in reaching their decision.
77.	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 Housing Service Charges are subject to additional legal considerations set out below.

78.	In relation to the Housing Revenue Account Service Charges, the Council can make a charge 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 be reasonable and transparent and are limited to covering the actual cost for providing the services.
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Other Legal Implications

79.	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 Executive Management Team, the proposals contained in this report have been checked from a legal viewpoint.
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80.	<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"> • age;
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	<ul style="list-style-type: none"> • disability; • gender reassignment; • pregnancy and maternity; • race; • religion or belief; • sex; • sexual orientation. <p>Details of how the Council has approached and considered its duty under to Equalities Act 2010 are set out in the accompanying EISAs which Members must have regard to in reaching their decision.</p>
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RISK MANAGEMENT IMPLICATIONS

81.	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 Financial Monitoring Report included elsewhere on this agenda.
82.	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 20 to 45.

POLICY FRAMEWORK IMPLICATIONS

83.	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 2023/24 must be proposed by the Cabinet for consideration by the full Council under the Constitution. The update of the Capital Programme forms part of the overall Budget Strategy of the Council.
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KEY DECISION?	No
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WARDS/COMMUNITIES AFFECTED:	All
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SUPPORTING DOCUMENTATION

Main Appendices (see also below for full table of contents including annexes to Appendices)

1.	The Revenue Budget 2023/24 and MTFS 2023/24 to 2026/27
2.	The Capital Strategy
3.	The Flexible Use of Capital Receipts Strategy
4.	The General Fund Capital Programme 2022/23 to 2027/28
5.	HRA Revenue Budget 2023/24 and Capital Programme 2022/23 to 2027/28
6.	Statutory Power to Undertake Proposals in the Report
7.	HRA Capital Programme Scheme Details (Confidential)

Documents In Members' Rooms

1.	Analysis of the budget consultation feedback
2.	Cumulative Impact Assessment
3.	Updated Equality and Safety Impact Assessments (ESIAs)

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.	Update on budget forecast for 2023/24 onwards and savings plans	
2.		

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Budget Report – The Revenue Budget 2023/24, Medium Term Financial Strategy and Capital Programme

Appendix 1 – the Revenue Budget 2023/24 and MTFS 2023/24 to 2026/27

Annex 1.1 – MTFS 2023/24 to 2026/27

Annex 1.1(a) to MTFS – General Fund Medium Term Financial Forecast

Annex 1.1(b) to MTFS – Previously Agreed Budget Changes

Annex 1.1(c) to MTFS – Medium Term Financial Forecast by Service Activity

Annex 1.1(d) to MTFS – General Fund Earmarked Revenue Reserves

Annex 1.1(e) to MTFS – HRA Medium Term Financial Forecast

Annex 1.1(f) to MTFS – FM Code principles

Annex 1.2 – 2023/24 Council Tax Calculation

Annex 1.3 – 2023/24 Council Tax Collection Fund Estimates

Annex 1.4 – Government Grants

Annex 1.5 – New Budget Pressures

Annex 1.6 – New Savings Proposals

Annex 1.7 – Part-Night Street Lighting

Annex 1.8 - Movement in Budget Shortfall since November 2022

Annex 1.9 – 2023/24 Net Revenue Expenditure Budget Adjustments by Service Activity

Appendix 2 – The Capital Strategy

Annex 2.1 – MRP Strategy 2023/24

Annex 2.2 – Investment Strategy 2023/24

Appendix 3 – The Flexible Use of Capital Receipts Strategy
Appendix 4 – The General Fund Capital Programme 2022/23 to 2027/28
Annex 4.1 – GF Capital Budget Variations Since Q3
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Appendix 5 – HRA Budget 2023/24 and Capital Programme 2022/23 to 2027/28
Annex 5.1 – HRA 40 Year Business Plan – Operating Account
Annex 5.2 – HRA heating charges
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Appendix 6 – Statutory Power to Undertake Proposals in the Report
Appendix 7 – HRA Capital Scheme Details – Confidential
Members’ Room Documents – Budget Consultation Feedback, Individual ESAs and Cumulative Impact Assessment