Public Document Pack

Cabinet

Monday, 21st February, 2022
at 6.00 pm

PLEASE NOTE TIME OF MEETING

CONFERENCE ROOM 3, CIVIC CENTRE

This meeting is open to members of the public

Members

Leader – Councillor Fitzhenry
Deputy Leader and Cabinet Member for Growth – Councillor Moulton
Cabinet Member for Finance – Councillor Hannides
Cabinet Member for Environment – Councillor S Galton
Cabinet Member for Communities, Culture and Heritage – Councillor Vassiliou
Cabinet Member for Health and Adult Social Care – Councillor White
Cabinet Member for Children's Social Care – Councillor P Baillie
Cabinet Member for Education – Councillor J Baillie
Cabinet Member for Customer Service and Transformation – Councillor Harwood

(QUORUM – 3)

Contacts

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BACKGROUND AND RELEVANT INFORMATION

The Role of the Executive
The Cabinet and individual Cabinet Members make executive decisions relating to services provided by the Council, except for those matters which are reserved for decision by the full Council and planning and licensing matters which are dealt with by specialist regulatory panels.

The Forward Plan
The Forward Plan is published on a monthly basis and provides details of all the key executive decisions to be made in the four month period following its publication. The Forward Plan is available on request or on the Southampton City Council website, www.southampton.gov.uk

Implementation of Decisions
Any Executive Decision may be "called-in" as part of the Council's Overview and Scrutiny function for review and scrutiny. The relevant Overview and Scrutiny Panel may ask the Executive to reconsider a decision, but does not have the power to change the decision themselves.

Mobile Telephones – Please switch your mobile telephones to silent whilst in the meeting.

Use of Social Media
The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting.
By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public. Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so. Details of the Council's Guidance on the recording of meetings is available on the Council's website.

Municipal Year Dates (Mondays)

2021	2022
15 June (Tues)	17 January
19 July	7 February
16 August	21 Feb (budget)
13 September	14 March
18 October	18 April
15 November	
20 December	

Executive Functions
The specific functions for which the Cabinet and individual Cabinet Members are responsible are contained in Part 3 of the Council's Constitution. Copies of the Constitution are available on request or from the City Council website, www.southampton.gov.uk

Key Decisions
A Key Decision is an Executive Decision that is likely to have a significant:

- financial impact (£500,000 or more)
- impact on two or more wards
- impact on an identifiable community

Procedure / Public Representations
At the discretion of the Chair, members of the public may address the meeting on any report included on the agenda in which they have a relevant interest. Any member of the public wishing to address the meeting should advise the Democratic Support Officer (DSO) whose contact details are on the front sheet of the agenda.

Fire Procedure – In the event of a fire or other emergency, a continuous alarm will sound and you will be advised, by officers of the Council, of what action to take.

Smoking policy – The Council operates a no-smoking policy in all civic buildings.

Access – Access is available for disabled people. Please contact the Cabinet Administrator who will help to make any necessary arrangements.

Southampton: Corporate Plan 2020-2025 sets out the four key outcomes:

- Communities, culture & homes - Celebrating the diversity of cultures within Southampton; enhancing our cultural and historical offer and using these to help transform our communities.
- Green City - Providing a sustainable, clean, healthy and safe environment for everyone. Nurturing green spaces and embracing our waterfront.
- Place shaping - Delivering a city for future generations. Using data, insight and vision to meet the current and future needs of the city.
- Wellbeing - Start well, live well, age well, die well; working with other partners and other services to make sure that customers get the right help at the right time

CONDUCT OF MEETING

TERMS OF REFERENCE
The terms of reference of the Cabinet, and its Executive Members, are set out in Part 3 of the Council's Constitution.

RULES OF PROCEDURE
The meeting is governed by the Executive Procedure Rules as set out in Part 4 of the Council's Constitution.

BUSINESS TO BE DISCUSSED
Only those items listed on the attached agenda may be considered at this meeting.

QUORUM
The minimum number of appointed Members required to be in attendance to hold the meeting is 3.

DISCLOSURE OF INTERESTS
Members are required to disclose, in accordance with the Members' Code of Conduct, ***both*** the existence ***and*** nature of any "Disclosable Pecuniary Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

DISCLOSABLE PECUNIARY INTERESTS
A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:
(i) Any employment, office, trade, profession or vocation carried on for profit or gain.
(ii) Sponsorship:
Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.
(iv) Any beneficial interest in land which is within the area of Southampton.
(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.
(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.
(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

a) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

Other Interests
A Member must regard himself or herself as having an, 'Other Interest' in any membership of, or occupation of a position of general control or management in:
Any body to which they have been appointed or nominated by Southampton City Council
Any public authority or body exercising functions of a public nature
Any body directed to charitable purposes
Any body whose principal purpose includes the influence of public opinion or policy

Principles of Decision Making
All decisions of the Council will be made in accordance with the following principles:-
- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:
- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

AGENDA

1 **APOLOGIES**

To receive any apologies.

2 **DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS**

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

EXECUTIVE BUSINESS

3 **STATEMENT FROM THE LEADER**

4 **MATTERS REFERRED BY THE COUNCIL OR BY THE OVERVIEW AND SCRUTINY MANAGEMENT COMMITTEE FOR RECONSIDERATION (IF ANY)**

There are no matters referred for reconsideration.

5 **REPORTS FROM OVERVIEW AND SCRUTINY COMMITTEES (IF ANY)**

There are no items for consideration

6 **EXECUTIVE APPOINTMENTS**

To deal with any executive appointments, as required.

ITEMS FOR DECISION BY CABINET

7 **ST MARY'S LEISURE CENTRE** (Pages 1 - 40)

To consider the report of the Cabinet Member for Finance and Capital Assets outlining the proposed approach for the future of the building known as St Mary's Leisure Centre.

8 **EXCLUSION OF THE PRESS AND PUBLIC - EXEMPT PAPERS INCLUDED IN THE FOLLOWING ITEM**

To move that in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of any consideration of the exempt annex 2.2a to the following Item.

Annex 2.2a is confidential, the confidentiality of which is based on category 3 of paragraph 10.4 of Councils Access to Information Procedure Rules. It is not in the public interest to disclose this because doing so would prejudice the authority's ability to achieve best consideration in financing the programme.

9 FINANCIAL MONITORING FOR THE PERIOD TO THE END OF DECEMBER 2021 (Pages 41 - 128)

Report of the Cabinet Member for Finance and Capital Assets setting out the financial position for the Council as at the end of December, 2021.

10 EXCLUSION OF THE PRESS AND PUBLIC - EXEMPT PAPERS INCLUDED IN THE FOLLOWING ITEM

To move that in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of any consideration of the exempt appendices 5 and 6 to the following Item.

Appendix 5 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.

Appendix 6 of this report is not for publication by virtue of categories 3 (financial and business affairs), and 7A (obligation of confidentiality) of paragraph 10.4 of the Council's Access to Information Procedure Rules, as contained in the Council's Constitution. It is not in the public interest to disclose this information as Appendix 6 to the report contains confidential and commercially sensitive information in relation to one of the Council's counterparties. It would prejudice the Council's ability to operate in a commercial environment and obtain best value in contract negotiations and would prejudice the Council's commercial relationships with third parties if they believed the Council would not honour obligations of confidentiality.

11 THE REVENUE BUDGET 2022/23, MEDIUM TERM FINANCIAL STRATEGY AND CAPITAL PROGRAMME □ (Pages 129 - 286)

Report of the Cabinet Member for Finance and Capital Assets detailing the Revenue Budget 2022/23, Medium Term Financial Strategy and Capital Programme.

Friday, 11 February 2022 Service Director – Legal and Business Operations

DECISION-MAKER:	CABINET
SUBJECT:	ST MARY'S LEISURE CENTRE
DATE OF DECISION:	21 FEBRUARY 2022
REPORT OF:	**CABINET MEMBER FOR FINANCE AND CAPITAL ASSETS**

CONTACT DETAILS

Executive Director	Title	**Executive Director Place**		
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Author:	Title	**Head of Supplier Management**		
	Name:	**Paul Paskins**	**Tel:**	**023 8083 4353**
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STATEMENT OF CONFIDENTIALITY		
Not Applicable		
BRIEF SUMMARY		
This report considers the discontinuation of leisure services from St Mary's Leisure Centre ("SMLC") following the expiry on 31 December 2021 of an agreement with Solent University ("SU") to operate SMLC on the Council's behalf.		
This report also recommends the disposal of the freehold of SMLC.		
RECOMMENDATIONS:		
	(i)	Having had regard to representations received to date and the Equality and Safety Impact Assessment, to permanently cease leisure services at SMLC and approve in principle the disposal of the site on the basis set out in recommendation (ii) below.
	(ii)	To delegate authority to the Executive Director, Place to, explore the option of restricting the disposal of the building to residential and wholly affordable housing or mixed use with affordable housing in accordance with planning policy. A further decision, in accordance with the Council's Constitution, would be brought forward if this option was to be determined to be viable. If the Executive Director, Place , following consultation with the Cabinet Member for Finance and Capital Assets and the Executive Director for Finance, Commercialisation, determines this option not to be commercially viable, to proceed to disposal of the site on the open market.
	(iii)	In accordance with the Council's Financial Procedure Rules, and subject to the anticipated proceeds, explore options for investing a proportion or all of a sum equivalent to the capital receipt arising from the disposal of the building to enhance, improve or supplement facilities and places for people (especially young people) within the community for leisure and recreation.

	(iv)	If the outcome of recommendation (ii) is to dispose of the building without restriction, to delegate authority to the Executive Director, Place to take all necessary action to dispose of the site on the open market, including but not limited to selection of a preferred bidder and undertaking all associated arrangements to conclude the sale of the premises.

REASONS FOR REPORT RECOMMENDATIONS

1. Users of SMLC have decreased considerably over 2020 and 2021 and since the reopening of SMLC in May 2021 - following the easing of COVID-related restrictions - users were averaging around 1,100 per month. It is believed that this significant reduction in usage is due to:-
   - SMLC's closure in accordance with the Health Protection (Coronavirus) Regulations 2021 and associated non-statutory government guidance (referred to in this report as the "Covid-19 impact") and
   - SU opening their new academic leisure facility at East Park Terrace ("the Sports Complex") and the transfer of the academic users from SMLC to the Sports Complex.

2. In addition to a wide range of Council and privately owned leisure facilities operating across Southampton, a number of facilities exist within a one-mile radius of SMLC. This includes the Sports Complex which is situated approximately 0.2 miles from SMLC and which provides (around its academic provision), public access to a number of activities available at SMLC.

3. The condition of SMLC building and interior facilities are poor and likely to be costly to maintain, particularly as a result of its Grade II listed status. The facility is at odds with the Council's emerging strategic vision for modern, accessible leisure facilities which actively contribute to the improvement of health and care outcomes for residents and users and result in improved income from such facilities in order to reduce subsidisation by the Council.

4. The annual budget of operating SMLC is £208,000 and the budgeted income from the facility is £60,000 resulting in a net budgeted saving of £148,000 by discontinuing leisure services at SMLC. It should be noted that in 2020/21 and 2021/22 financial years the net cost of operating the facility varied from the £148,000 as shown in the table below. This occurred as a result of the direct and indirect effect of the Covid-19 impact which affected the actual expenditure and actual income.

	2020/21		**2021/22**	
	Budget	**Actual**	**Budget**	**Actual**
	£	£	£	£
Income	-60,000	-9,732	-60,000	-11,388*
Expenditure	208,000	172,205	208,000	145,474*
Deficit	148,000	**162,472**	148,000	**134,085***

**forecast figures to 31/03/2022.*

5.	The capital receipt arising from disposal on the open market without restriction is indicated to be up to £810,000, based on estimates in October 2021 and subject to the caveats set out in paragraph 23 of this report. It should be noted that if disposal was restricted to development for the provision of residential use, the capital receipt is likely to be reduced. The indicative financial impact of restricting the disposal in this manner will be determined by the process described in paragraph 31 and subject to paragraph 33 of this report.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
6.	The following options were considered:- **a. Continue to use the building as a leisure centre or other publicly accessible facility** with services provided directly by the Council or by selecting an alternative provider through a competitive process. **b. Community Asset Transfer** to a not for profit organisation. **c. Close the building** and "mothball" it to minimise future costs to the Council. **d. Make the building available for rent**. Each of these options was rejected as they are inconsistent with paragraph 3 of this report.
DETAIL (Including consultation carried out)	
7.	A contract between the Council and SU for SU to operate SMLC commenced in 2010 and expired in 2019. The Council conducted a bidding process in 2019 to create a 'community hub'**,** facility but this did not result in the appointment of an alternative operator as none of the bids received met the Council's criteria. As a result, SMLC continued to be operated by SU on behalf of the Council with the Council paying SU's costs and receiving (and taking the risk on) the income until 31 December 2021, when the arrangement with SU ended. Allowing for a usual Christmas period closure, the final date of operational activities at SMLC was 22 December 2021.
8.	A previous consultation was carried out in August 2019 for twelve weeks, regarding the proposal to create a community hub in the building. When asked how to use the space in the future, the highest two responses indicated a preferred usage for sports and wellbeing and for community-driven use. The highest percentage of people completing the survey were from the Bevois area of the City. This consultation informed the Council's approach to service delivery between its completion and the current date.
9.	An eight-week public consultation regarding the discontinuation of leisure services at SMLC ("the Consultation") was undertaken between 30 November 2021 and 24 January 2022.

10.	As a direct and indirect of the Covid-19 impact, many authorities across the country have closed or failed to re-open leisure facilities and operating conditions in the leisure market as a whole remain challenging with local authorities under pressure to establish or increase subsidies.
11.	The Council undertook a successful bid to the National Leisure Recovery Fund which resulted in an allocation of £22,321 to support the reopening of SMLC. These funds were used for this purpose and assisted in mitigating the impact of the income reductions referred to in paragraph 4 of this report.
Consultation - Process	
12.	The Consultation sought feedback from users of SMLC and local residents and business on the impact on a discontinuation of leisure services at SMLC.
13.	The Consultation was made available in variety of formats, including online, hard copy and translated into languages of Polish and Farsi with other languages available on request.
14.	The Consultation was communicated through a variety of media including local radio, press releases, the Council's website and bulletins, posters and postcards and social media. The Council's Stronger Communities team was also actively engaged in promoting the Consultation within the local community, including visiting community spaces and venues and engaging with users at SMLC before its closure for the Christmas period.
Consultation - Results	
15.	The full results summary of the Consultation feedback is contained as Appendix 1. This provides key findings regarding the impact and is supported by comment analysis and demographic/characteristic breakdown analysis.
16.	In summary, 1,758 responses to the Consultation were received. 75% of respondents are users of SMLC (or parents of children who use SMLC). The highest numbers of responses were from those who take part in badminton activities, football and exercise classes. The highest proportion of respondents were of Asian/Asian British ethnicity (892 responses - 51%) and White British ethnicity (288 responses -16%).
17.	86% of all respondents report a negative impact and 7% a positive impact if discontinuation of the services was to take place. 6% felt there would be no impact and 1% didn't know what the impact would be.
18.	The free text comments have been read and categorised into different themes (including positive, negative, user type and suggestions). These are contained in Appendix 1.
19.	Aside from general comments around wishing leisure services to continue from SMLC (266 comments), the top three most frequent free text themes from those responding to indicate a negative impact are:- • SMLC is important to the area and community needs the facilities close by (470 comments); • SMLC supports physical and mental health/negative impact if removed (234 comments) and

	• SMLC provides low-cost leisure/more affordable in comparison (192 comments). Aside from other positive comments about discontinuing leisure services from SMLC (9 comments), the top three most frequent free text themes from those responding to indicate a positive impact are:- • Better/other facilities elsewhere (11 comments); • Building is unfit for use (9 comments) and • Money is better prioritised elsewhere/cost concerns of refurbishing (4 comments).
20.	A number of negative comments received early in the Consultation were from groups who use SMLC for regular activities and therefore are directly affected by the potential closure. Throughout the Consultation period, Council officers have been working closely with SU and other leisure providers to mitigate the effect of the potential closure by identifying alternative leisure venues for these groups. This has been largely successful with SU now able to accommodate a number of groups at their new Sports Complex in addition to providing a competitive gym offering to the public with discounted rates for holders of Smartcities cards.
21.	Appendix 2 to this paper summarises the affected groups which have made contact and where the Council has been able to secure alternative arrangements. It should be noted that Appendix 2 is based on the Council's understanding of the position at the point at which this report was drafted.
22.	Whilst the consultation does not directly concern the possible disposal of SMLC, a number of the consultation responses referred to its future.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
23.	The current annualised budgeted cost of operating the facility including staffing costs, repairs, utilities and Business Rates is £208,000 and the budgeted income from the facility is £60k per annum. There is therefore a budgeted net saving of £148,000 to General Fund revenue by discontinuing leisure services at SMLC. It should be noted that that actual expenditure and income figures in financial year 2020/21 and those estimated for financial year 2021/22 are less than budgeted as set out in more detail in the table in paragraph 4 of this report.
24.	The capital receipt arising from disposal on the open market without restriction is estimated to be £810,000. The building's listed status, condition, restrictive covenants on the title and the lack of comparable evidence, give rise to material valuation uncertainty and consequently, this valuation is indicative and should be treated with a high degree of caution. If disposal is restricted to development for the disposal of the building to wholly affordable housing or mixed use with affordable housing, the capital receipt is likely to be reduced and the indicative reduction would be considered as part of the future further Cabinet decision.
25.	The proceeds from disposal may depend on the subsequent use of the land and planning considerations in accordance with the Council's Constitution, therefore

	the capital receipt is uncertain. A sum equal to a maximum of any residual net capital receipt realised will be considered for re-investment within the capital programme. This will be to ensure enhanced, improved or supplemented facilities and places for people (especially young people) to use within the community for leisure and recreation and to promote these activities.
26.	A delay in the disposal of the building may result in the Council incurring additional mothballing, maintenance and security costs.
Property/Other	
27.	SMLC was built in 1889 and is an ex-drill hall and is Grade II listed. It is captured by Class E and F of Schedule 2, Part A of the Town and Country Planning (Use Classes) (Amendment) (England) Regulations 2020 which restricts its usage without further planning permissions to those set out in Appendix 3.
28.	A building condition survey dated 27 September 2021 identifies a cost of £382,309 to undertake repairs to maintain the building and includes £232,172 relating to partial replacement and repair of the roofing. This amount represents the sum of repairs to maintain the building and does not take into account any statutory building compliance-related maintenance and/or improvements to the building. Furthermore, it does not contain any costs for any upgrade or improvement of the interior of the building and its services.
29.	The building contains asbestos which is currently being managed by the Council in situ based on the condition of the material. The roof of the building is considered to have reached the end of its life. If the Council were to retain the building, its standard asset management approach would be to continue to repair the roof in sections based on its building condition surveys, but an alternative approach would be to make a capital investment in order to replace the roof.
30.	SMLC is located within the defined local centre of St Mary's Road, where flexibility is afforded by the Council's adopted Development Plan for a wide range of commercial and community uses. Otherwise, the site is not allocated for development. As the existing use falls within Class E and F of the national classes system, the building can be used for a wide range of similar non-residential purposes without the need for planning permission. If a material change of use is proposed and a planning application is then triggered, the current Development Plan confirms that proposals that result in the loss of a community facility will not be supported if it is viable for the commercial, public or community sector to operate it and if there is no similar or replacement facility in the same neighbourhood. In these circumstances a robust submission would be required to justify the loss of the community use. Any physical works to the building would require Listed Building Consent, and whilst no fee is required the target for this process is eight weeks for an application to be determined. Any application for a change of use will be expected to work with the existing building envelope and form with minimal interventions. This will be a constraint to finding successful alternative uses.
31.	It may be possible to restrict the disposal of the building to a residential wholly affordable housing or mixed use with affordable housing, although the current Development Plan seeks to protect active, community ground floor uses within

	the City's defined local centres. It is recommended that alternative uses, including a residential scheme, are explored to establish whether or not there is a viable long-term use for the site that gives longevity for this Grade II listed building whilst respecting its historic integrity, form and fabric.
32.	The process to establish the viability of the approach described in paragraph 30 will include a Best Value assessment and a test in accordance s123 of the Local Government Act 1972. This process will include, but not be limited to, a range of considerations including community engagement, social and environmental impact, financial impact, any procurement implications, the commercial benefits, valuations, local outcomes and benefits, heritage considerations as a result of the listed status of the building, planning constraints and legal advice.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report</u>:	
33.	Under the delegated decision process the Head of Property has the delegated authority to approve terms of sale of property exceeding £500,000 in value providing the consideration does not exceed £1.5 million, following consultation with the relevant portfolio Cabinet Member and the Cabinet Member for Finance.
34.	The Council has the necessary statutory powers to dispose of land pursuant to s123 Local Government Act 1972. The Council is required by s123 to dispose of land for the best consideration reasonably obtainable except where the disposal is a short tenancy (grant of a term not exceeding 7 years) or with the consent of the Secretary of State. The 2003 General Disposal Consent (England) permits local authorities to dispose of land at an undervalue if (a) the purpose of doing is to promote the economic, social and/or environmental wellbeing of their area and (b) the difference between the consideration obtained and the unrestricted value of the land does not exceed £2m. The Council intends to achieve best value in any disposal of land. In the event that any option brought forward results in achieving less than best consideration, the matter will be brought back to Cabinet or Council for a further decision to include a detailed and comprehensive best value assessment of any options to be considered.
<u>Other Legal Implications</u>:	
35.	It is not believed that there are any Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE") implications for the Council arising from the cessation of services at SMLC.
36.	Any decision must be made having regard to the Human Rights Act 1998 and the Equality Act 2010, in particular the Public Sector Equality Duty. An Equality and Safety Impact Assessment (contained as Appendix 4) has been completed in order to inform the recommendations, setting out the implications and mitigations for those with protected characteristics. The Council also has a legal duty to consider the impact of its decision on crime and disorder in its local area.
RISK MANAGEMENT IMPLICATIONS	
37.	Whilst user numbers at SMLC were relatively modest in the period up until which leisure services ceased, a range of expressed concerns have been expressed as part of the Consultation and through separate representations to the Council and Ward Members. This included a deputation to the Cabinet meeting on 20

	December 2021 where the potential disposal of SMLC was included as a proposed saving for 2022/23 onwards. These responses include concerns about and risks relating to a lack of local community leisure facilities, places for people (especially young people) to use and the impact on health and well-being. The impacts associated with the proposals have, and continue to be, mitigated through directing users to a variety of alternative sports and leisure venues in the city. The Council has worked collaboratively with SU to maximise the level of public use available from their new Solent Complex. Recommendation (iii) of this report describes the approach the Council will take to enhance, improve or supplement facilities available within the community for leisure and recreation in order to address the concerns raised in the consultation and create and support places for people (especially young people) to use.
38.	The SMLC building has a number of maintenance needs and further investment would be needed if the Council wished to improve the building to make it a reasonably modern leisure facility which is fit-for-purpose. The disposal of the building will eliminate the known and unknown financial and operational risks associated with providing leisure services from SMLC.
39.	The time taken to explore the options associated with recommendation (ii) along with the time required to take any associated decision may result in the building remaining unoccupied for a significant period of time, resulting in additional costs to the Council of mothballing and maintenance of the building.
40.	There is a risk that restricting disposal conditions will reduce the overall Capital Receipt available for investing in the enhancement, improvement or supplementation of facilities available within the community for leisure and recreation as considered by recommendation (iii).
41.	There is a risk that a potential closure may be seen to undermine City of Culture strategy objectives. This is being mitigated by aligning with and supporting City of Culture communications and the bidding process.
42.	The Council has previously undertaken a bidding process to identify an alternative operator on a community hub basis. This process failed to appoint an operator. It is, therefore, a risk that the Council would be unable to identify and appoint an alternative operator without continuing to subsidise the facility or potentially increasing the subsidy. Discontinuation of the leisure services eliminates this risk.
POLICY FRAMEWORK IMPLICATIONS	
43.	The recommendations of this report to dispose of the site on the open market are consistent with and not contrary to the Council's policy framework. The Council will however investigate, in respect of recommendation (ii),whether or not the principle of an affordable housing scheme, possibly as part of a wider mixed-use scheme, could be supported under the Council's Local Development Framework (planning Policy) given the benefits that meeting an acute housing need may bring when balanced against the constraints outlined above at

	paragraph 29. In the event any proposal may require a departure from the approved Local Plan policies, a further decision of Council may be required.

KEY DECISION?	**Yes**
WARDS/COMMUNITIES AFFECTED:	All Wards.

SUPPORTING DOCUMENTATION

Appendices

1.	Consultation – Full results summary
2.	Alternative arrangements
3.	Class E and F of Schedule 2
4.	Equality and Impact Assessment

Documents In Members' Rooms

1.	Not Applicable

Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	**Yes (contained as Appendix 4)**

Data Protection Impact Assessment

Do the implications/subject of the report require a Data Protec Impact Assessment (DPIA) 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.	N/A	

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southampton dataobservatory

St Mary’s Leisure Centre Consultation

Full results summary

Data, Intelligence & Insight Team – January 2022.

Introduction and Methodology

- Southampton City Council undertook public consultation on the proposed discontinuation of leisure services at St Mary's Leisure Centre (SMLC).

- The consultation took place between **30 November 2021** and **24 January 2022.**

- The aim of this consultation was to:
  - Communicate clearly to residents and stakeholders the proposed discontinuation of leisure services at St Mary's Leisure Centre.
  - 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.

- This report summarises the aims, principles, methodology and results of the public consultation. It provides a summary of the consultation responses both for the consideration of decision makers and any interested individuals and stakeholders.

- It is important to be mindful that a consultation is not a vote, it is an opportunity for stakeholders to express their views, concerns and alternatives to a proposal. Equally, responses from the consultation should be considered in full before any final decisions are made. This report outlines in detail the representations made during the consultation period so that decision makers can consider what has been said alongside other information.

Consultation principles

Southampton City Council is committed to consultations of the highest standard, which are meaningful and comply with *The Gunning Principles (considered to be the legal standard for consultations)*:

1. Proposals are still at a formative stage (a final decision has not yet been made)

2. There is sufficient information put forward in the proposals to allow ‘intelligent consideration’

3. There is adequate time for consideration and response

4. Conscientious consideration must be given to the consultation responses before a decision is made

Local Government Association

New Conversations 2.0
LGA guide to engagement

Rules: The Gunning Principles

They were coined by Stephen Sedley QC in a court case in 1985 relating to a school closure consultation (R v London Borough of Brent ex parte Gunning). Prior to this, very little consideration had been given to the laws of consultation. Sedley defined that a consultation is only legitimate when these four principles are met:

1. **proposals are still at a formative stage**
   A final decision has not yet been made, or predetermined, by the decision makers
2. **there is sufficient information to give ‘intelligent consideration’**
   The information provided must relate to the consultation and must be available, accessible, and easily interpretable for consultees to provide an informed response
3. **there is adequate time for consideration and response**
   There must be sufficient opportunity for consultees to participate in the consultation. There is no set timeframe for consultation,[1] despite the widely accepted twelve-week consultation period, as the length of time given for consultee to respond can vary depending on the subject and extent of impact of the consultation
4. **‘conscientious consideration’ must be given to the consultation responses before a decision is made**
   Decision-makers should be able to provide evidence that they took consultation responses into account

These principles were reinforced in 2001 in the ‘Coughlan Case (R v North and East Devon Health Authority ex parte Coughlan[2]), which involved a health authority closure and confirmed that they applied to all consultations, and then in a Supreme Court case in 2014 (R ex parte Moseley v LB Haringey[3]), which endorsed the legal standing of the four principles. Since then, the Gunning Principles have formed a strong legal foundation from which the legitimacy of public consultations is assessed, and are frequently referred to as a legal basis for judicial review decisions.[4]

1 In some local authorities, their local voluntary Compact agreement with the third sector may specify the length of time they are required to consult for. However, in many cases, the Compact is either inactive or has been cancelled so the consultation timeframe is open to debate
2 BAILII, England and Wales Court of Appeal (Civil Decision) Decisions, Accessed: 13 December 2016.
3 BAILII, United Kingdom Supreme Court, Accessed: 13 December 2016
4 The information used to produce this document has been taken from the Law of Consultation training course provided by The Consultation Institute

Compiled by the Local Government Association and The Campaign Company, with help from The Consultation Institute **February 2019**

Methodology and Promotion

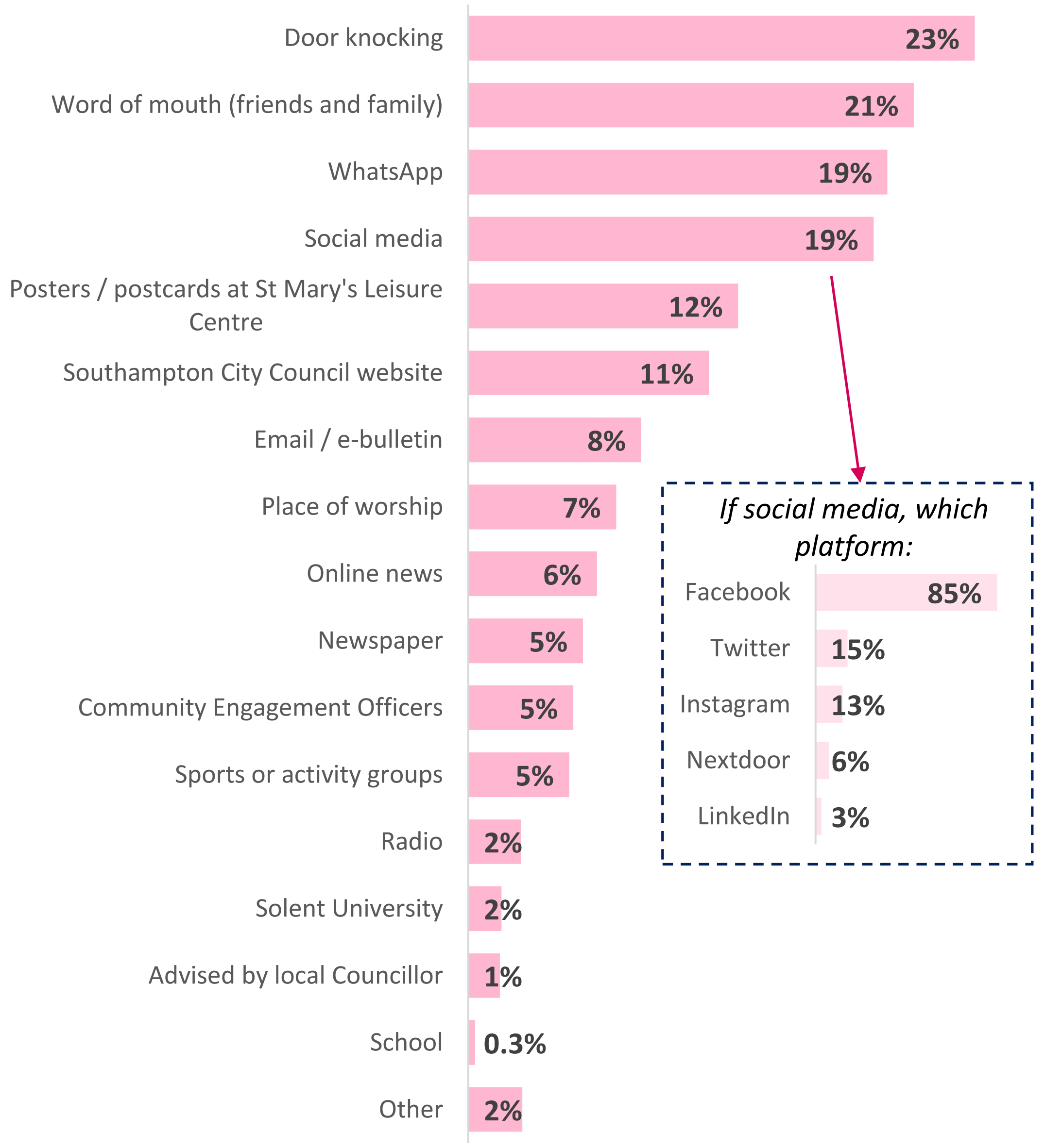
- The agreed approach for this consultation was to use a questionnaire as the main route for feedback. Questionnaires enable an appropriate amount of explanatory and supporting information to be included in a structured questionnaire, helping to ensure respondents are aware of the background and detail of the proposals. Translated copies of the questionnaires were made available in Farsi and Polish.

- Respondents could also write letters or emails to provide feedback on the proposals. Emails or letters from stakeholders that contained consultation feedback were collated and analysed as a part of the overall consultation.

- The consultation was promoted in the following ways:
  - Press release
  - SCC website news story
  - Social media (Facebook, Twitter and Nextdoor)
  - City News e-bulletin
  - Your City, Your Say e-bulletin
  - Posters and Postcards at the venue
  - Community engagement team promoted the consultation through community contacts

- All questionnaire results have been analysed and presented in graphs within this report. Respondents were given opportunities throughout the questionnaire to provide written feedback on the proposals. In addition anyone could provide feedback in letters and emails. All written responses and questionnaire comments have been read and then assigned to categories based upon similar sentiment or theme.

Where the consultation was heard:

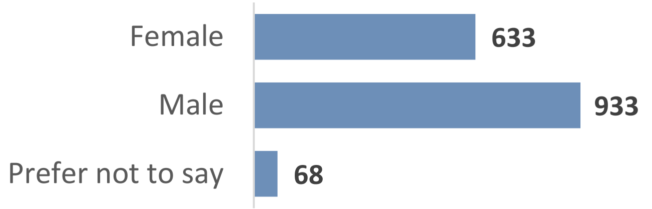


Who were the respondents?

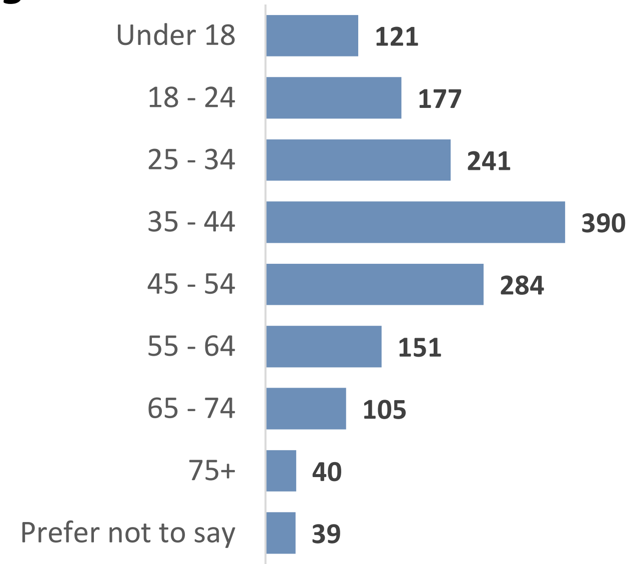
Total respondents: 1758

	Total number of responses
Questionnaire	1749
Emails / letters	9
Total	**1758**

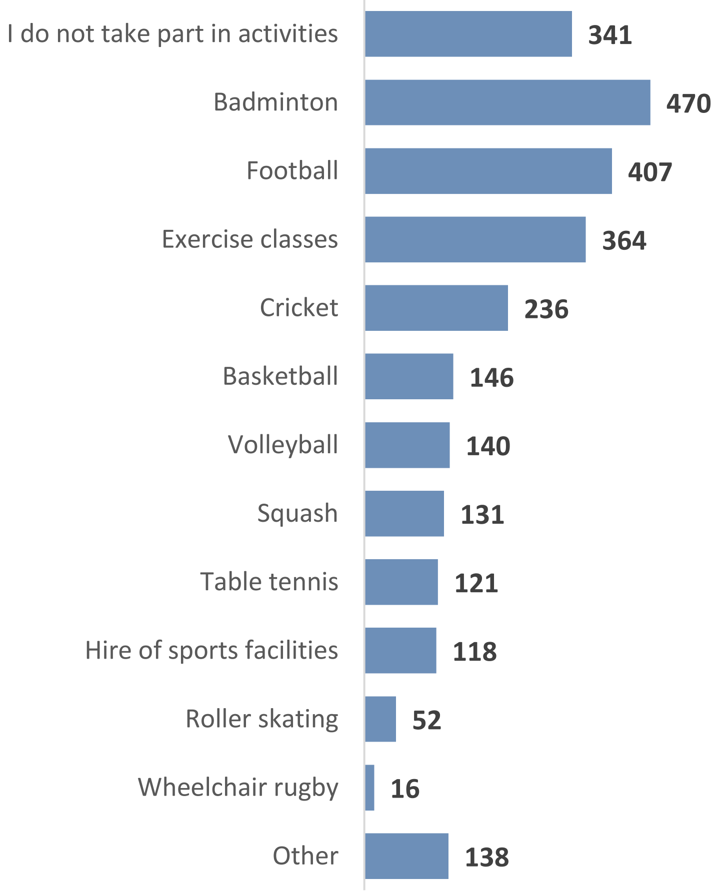
Sex:



Age:



Use of St Mary's Leisure Centre:



Reason for interest in consultation:

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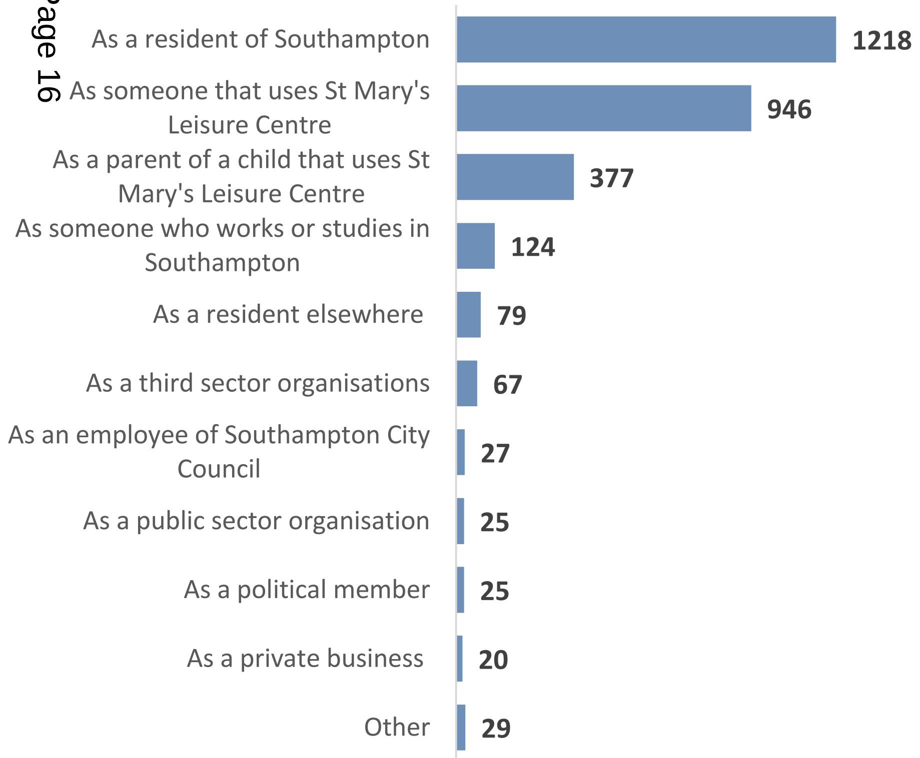
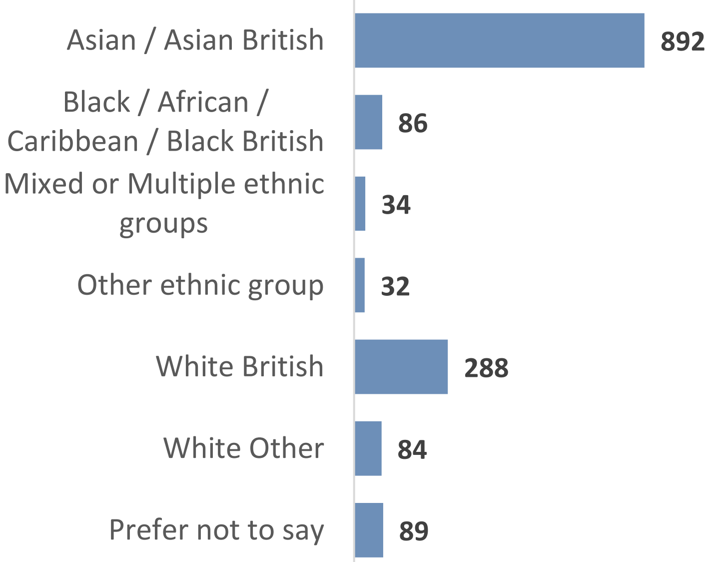


Ethnicity:



Consultation feedback

Questionnaire wording

The questionnaire outlined the following background information:

Southampton City Council is consulting on the proposed discontinuation of leisure services at St Mary's Leisure Centre. This means that the current leisure service would end. No final decision has been made on this yet. We would like to hear your views and understand what impact this might have on you.

St Mary's Leisure Centre, on St Mary's Road, is currently used for indoor exercise classes, racket sports and indoor team sports. The building also houses a gymnasium, but this is not in current use.

Solent University have managed St Mary's Leisure Centre since 2010. This current contract ends on 31 December 2021.

From 23 December 2021, St Mary's Leisure Centre will close for the Christmas period as usual. It will remain closed until a final decision is made about whether to end leisure services at St Mary's Leisure Centre.

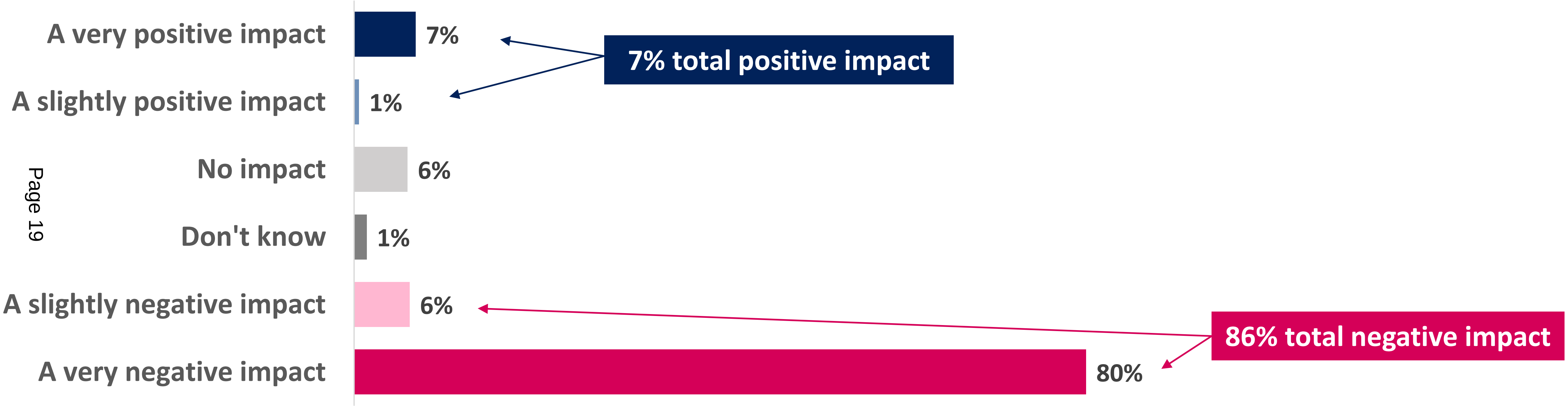
Due to the structural condition of the building and a decrease in user numbers over recent years, St Mary's Leisure Centre does not fit with the council's aspiration for modern, accessible leisure facilities which helps to improve health and care for people in Southampton.

The leisure services and activities that are proposed to end at St Mary's Leisure Centre can be accessed at other indoor locations across Southampton. See the table below for more information on what indoor facilities are available and where:

			Approx. travel distance from SMLC (miles)	Activities (this is an indication of services available but is not a comprehensive list)														
				Gym	Squash courts	Sports hall, including;	Basketball	Netball	Volleyball	Football	Cricket	Badminton	Tennis	Table Tennis	Wheelchair rugby	Fitness studio	Climbing wall	Outdoor sports pitches
Indoor leisure facilities	St Mary's Leisure Centre	SO14 0BL	0.0		●	●	●		●	●	●	●		●				
	Solent Sports Complex (Solent University)	SO14 0YN	0.2	●		●	●	●	●						●			
	Fit4Less	SO15 2AD	0.3	●												●		
	Boulder Shack	SO14 0JW	0.5													●	●	
	Cherry's Fitness Suite	SO14 6QX	0.5													●		
	Mayflower Gym (University of Southampton)	SO15 1DQ	0.5	●												●		
	Pound for Pound	SO14 0PF	0.7	●														
	The Gym	SO14 2BY	0.8	●														
	PureGym	SO15 1QJ	0.9	●												●		
	Spartans Gym	SO14 5QN	1.0	●														
	Next Generation Martial Arts	SO14 3HG	1.1	●														
	The Quays Leisure complex	SO15 1BA	1.4	●												●		
	Curves Ladies only fitness centre	SO18 1BH	2.0	●														
	King Edward VI School	SO15 5UQ	2.2															●
	Richard Taunton College	SO15 5RL	2.5			●					●							●
	Bitterne Park School	SO18 1BU	2.6															
	Bitterne Leisure Centre	SO18 6AQ	2.7	●		●	●	●		●	●	●	●	●		●		
	Jubilee Sports Centre (University of Southampton)	SO17 1BJ	2.7	●	●	●	●	●	●	●	●	●	●	●		●	●	●
	Itchen College Sports	SO19 7TB	2.9	●		●	●	●	●	●		●						●
	Chamberlayne Leisure Centre	SO19 9SJ	3.0	●		●	●	●		●	●	●		●		●		
	Oasis Academy Sholing	SO19 8PH	3.1	●														●
	Oasis Academy Mayfield	SO19 9NA	3.4	●		●		●				●	●			●		●
	Cantell School	SO16 3GJ	3.5			●						●						●
	Woodlands Community College	SO18 5FX	3.6			●	●	●	●	●	●	●	●					●
	Redbridge Community School	SO16 9AW	4.2			●												●
	Testlands Hub	SO16 9FQ	4.9	●		●						●				●		●
	Oasis Academy Lordshill (Upper School)	SO16 8FA	5.5	●		●				●		●				●		●
	David Lloyd Club (Southampton)	SO16 0XS	5.9	●	●								●			●		

Impact of the proposal

Question: What impact would ending leisure services at St Mary's Leisure Centre have on you, your family or business?



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Total respondents to question: 1688

Key findings:

- The majority of respondents felt that the impact of the proposals would be negative (86% total negative impact) compared to 7% of respondents that thought the impact would be positive.
- A small proportion felt there would be no impact (6%) or didn't know what the impact would be (1%).

Impact of the proposal – by demographics

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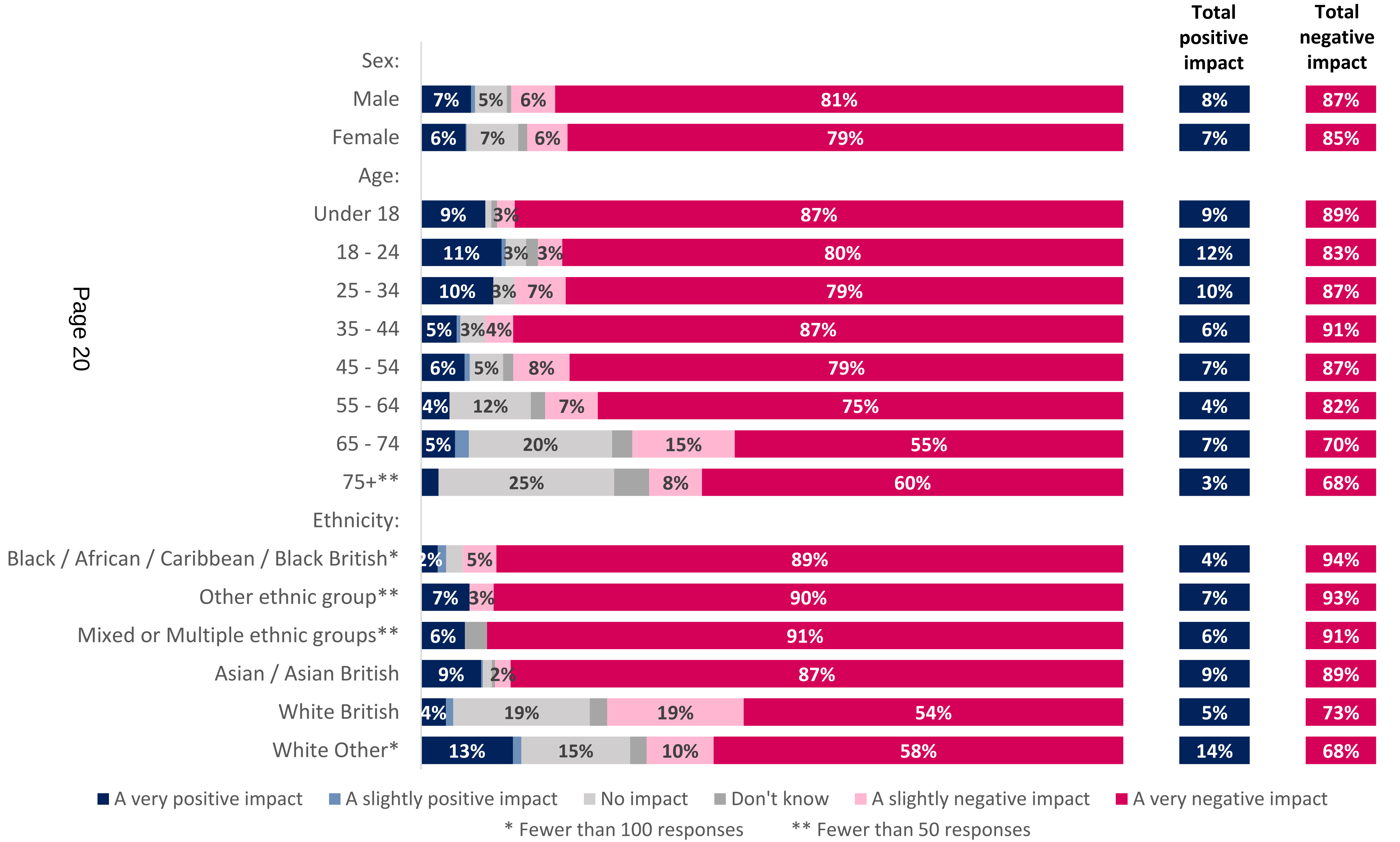
Question: **What impact would ending leisure services at St Mary's Leisure Centre have on you, your family or business?**



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Key findings:

- Across all demographics, more respondents felt the impact would be negative rather than positive.
- There was little observed difference between males and females.
- There was an indication that younger age groups felt the impact would be slightly more positive when compared to older age groups.
- White British and Other White ethnicities reported higher levels of 'no impact' and lower levels of negative impact than average.

Impact of the proposal – by characteristics and activities

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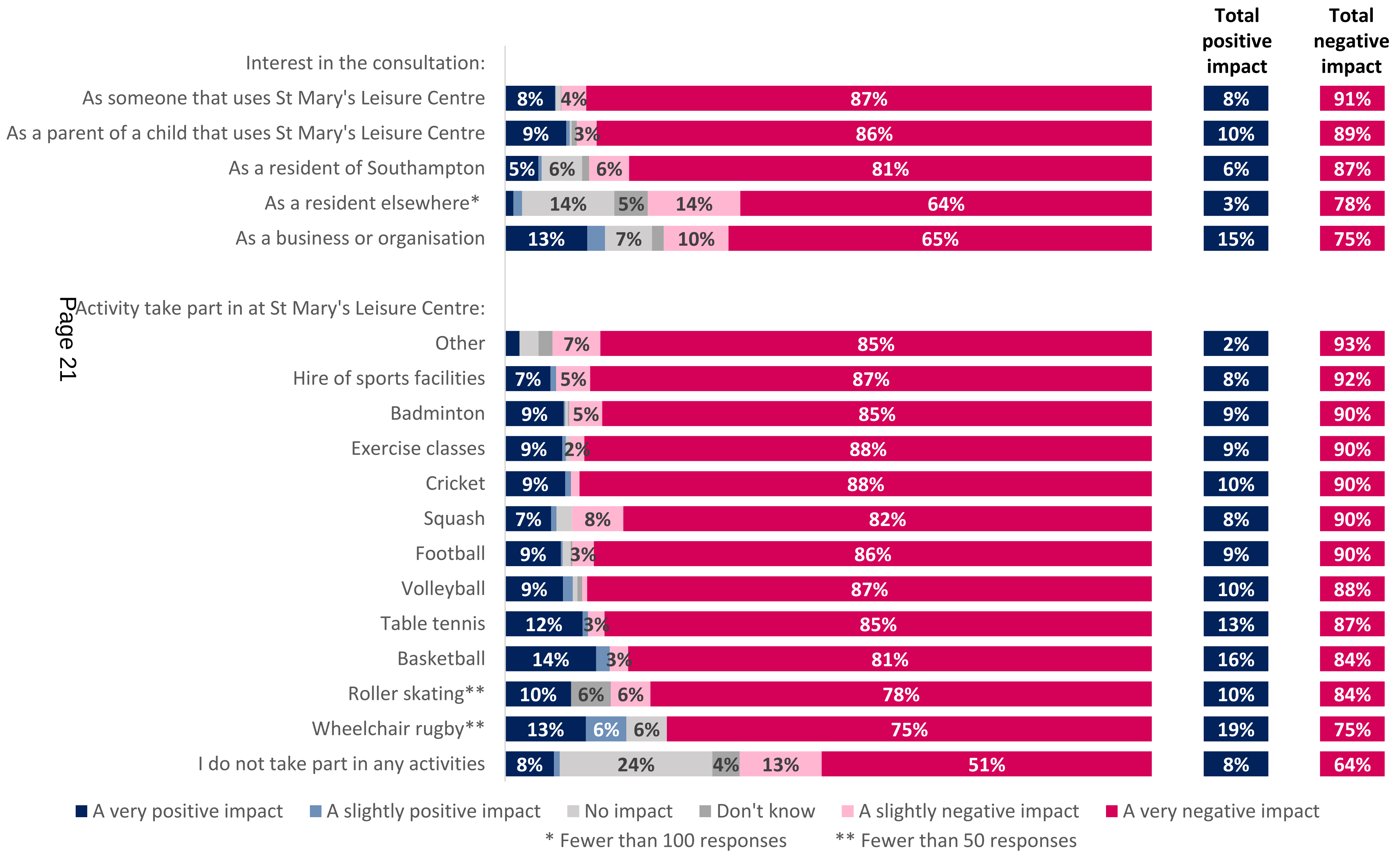
Question: What impact would ending leisure services at St Mary's Leisure Centre have on you, your family or business?

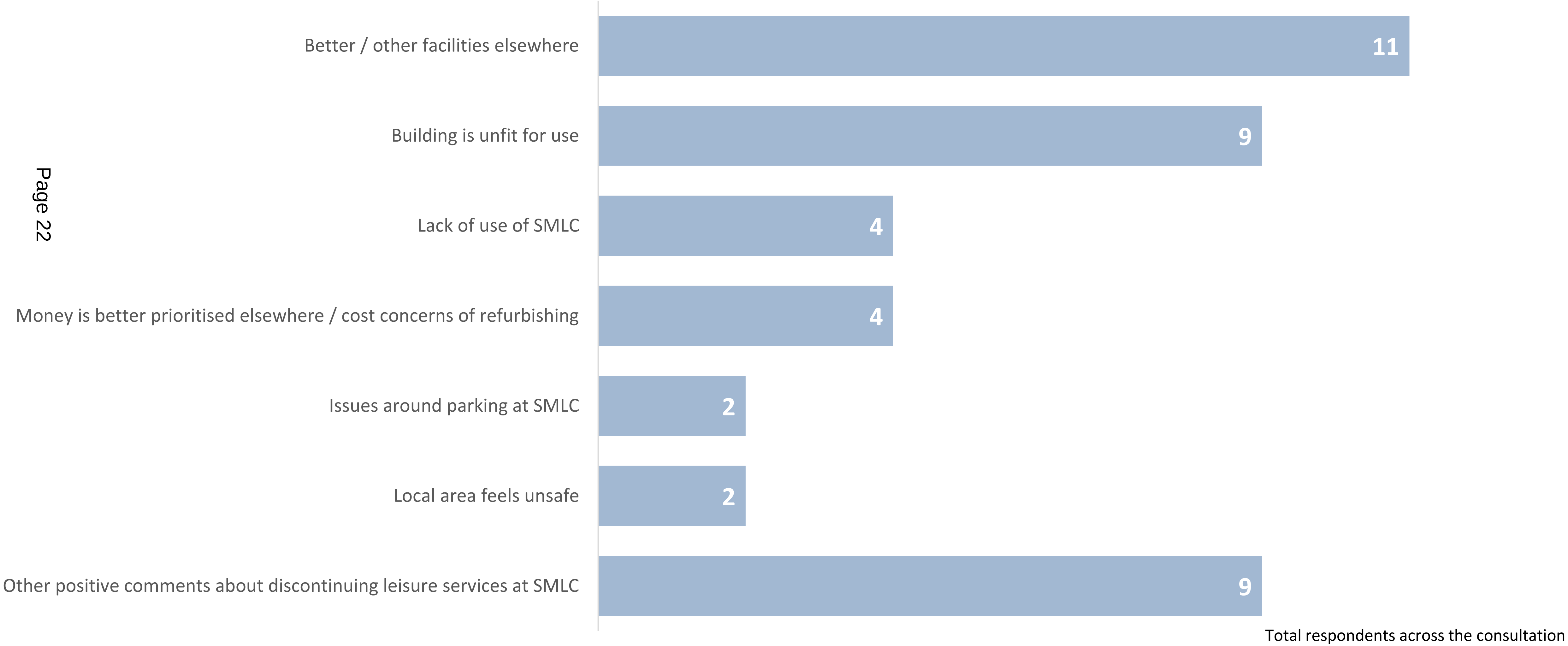


Key findings:

- Across all characteristics and activities, more respondents felt the impact would be negative rather than positive.
- Those that use St Mary's Leisure Centre reported higher negative impacts than those that do not use the Centre.
- Businesses and organisations reported a lower negative impact than average.
- Those that take part in Table tennis, Basketball and Wheelchair Rugby reported still higher levels of positive impacts than other activities.

Free text responses in favour of discontinuing leisure services at SMLC.

A total of **29** respondents provided a comment in favour of discontinuing leisure services at SMLC.
The following graph shows the total number of respondents by each theme of comment.



Free text comment themes

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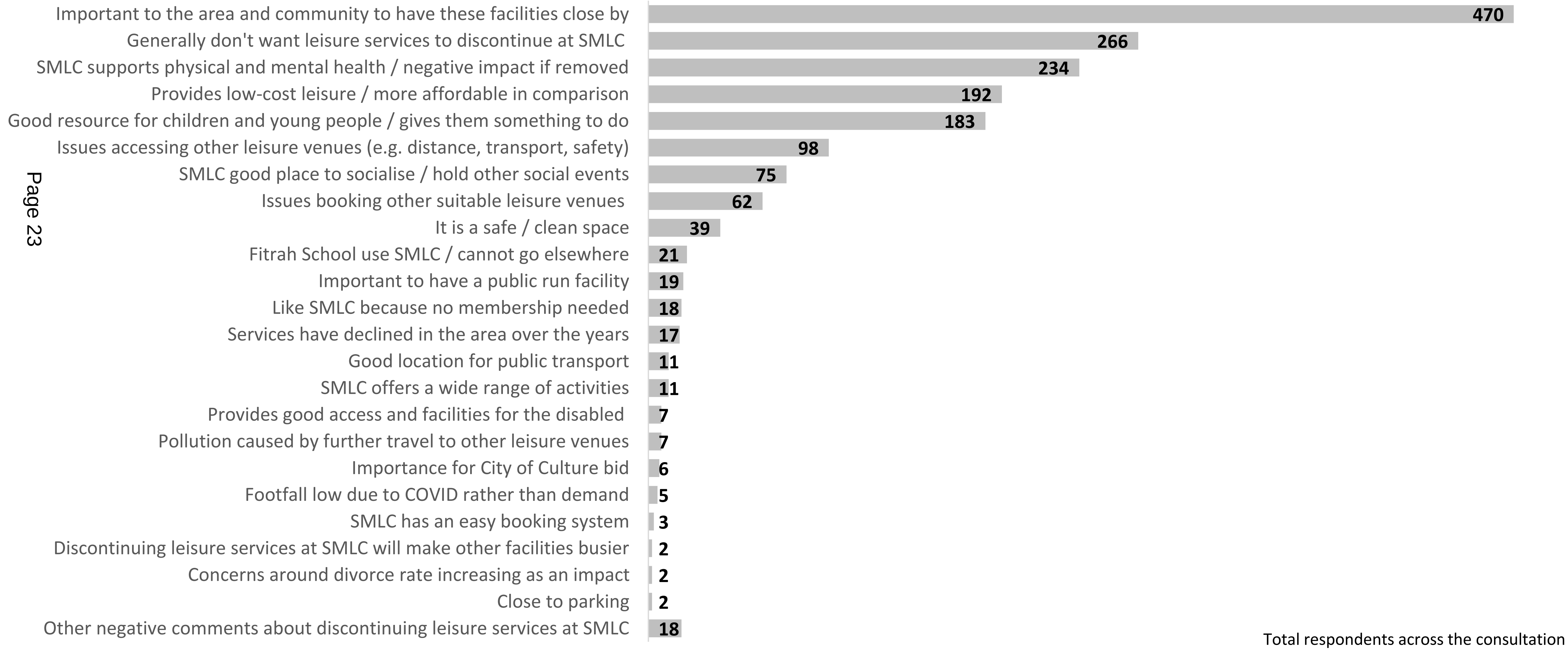
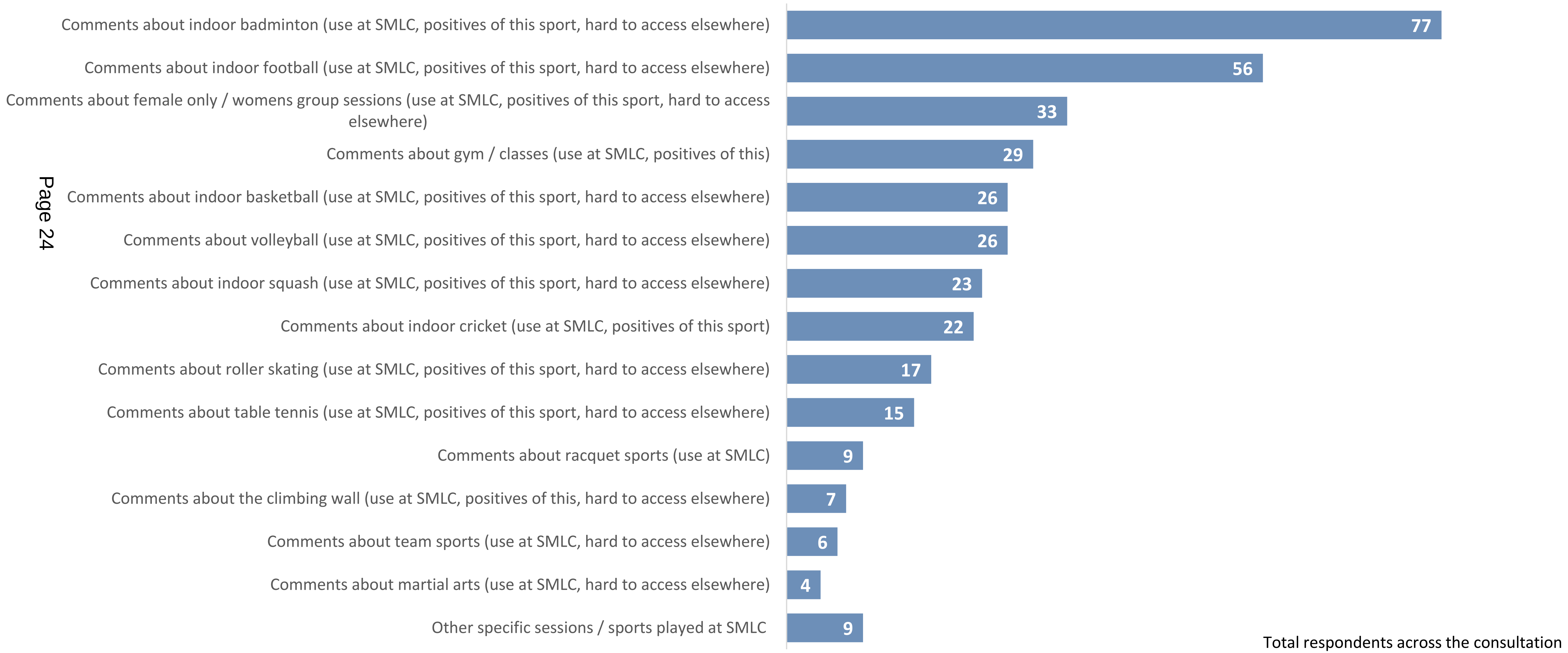
Free text responses not in favour of discontinuing leisure services at SMLC.

A total of **1071** respondents provided a comment not in favour of discontinuing leisure services at SMLC.
The following graph shows the total number of respondents by each theme of comment.



Free text responses on specific sessions / sports played.

A total of **289** respondents provided a comment on specific sessions / sports played .
The following graph shows the total number of respondents by each theme of comment.



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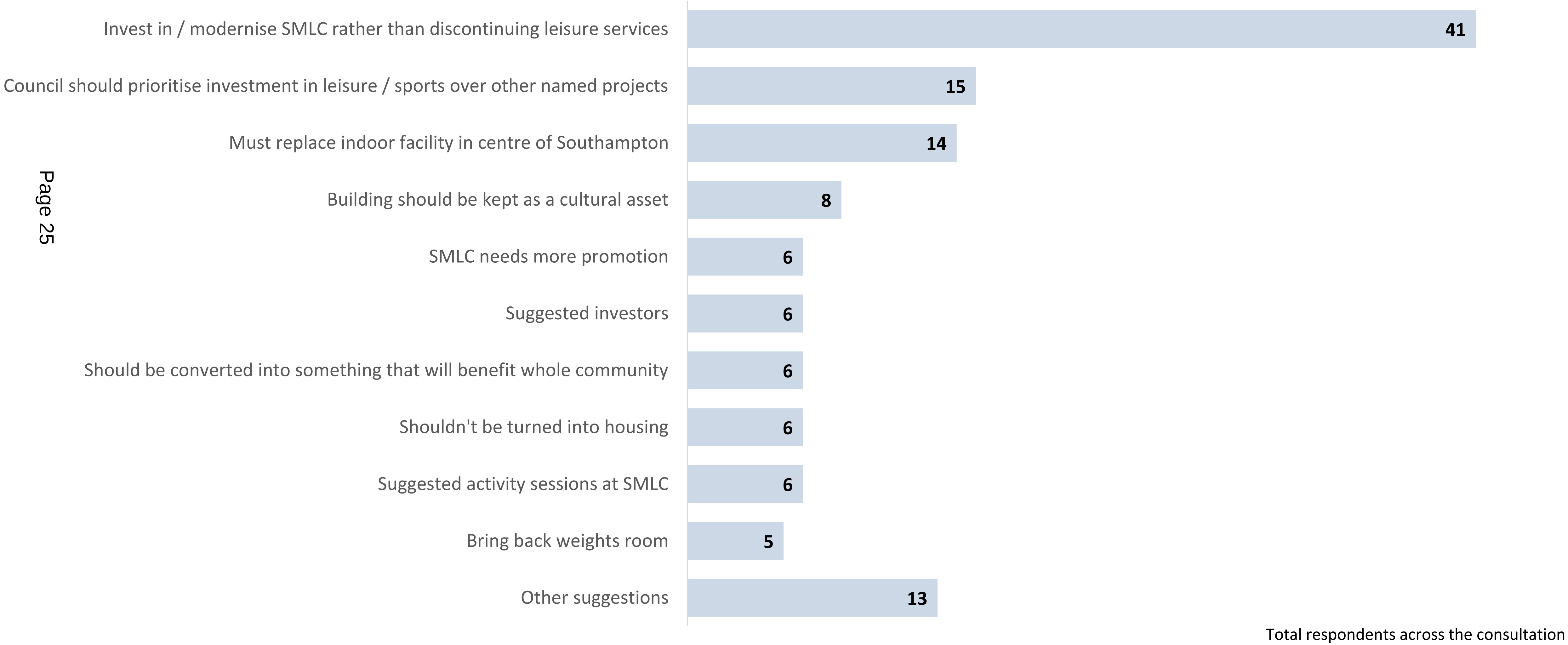
Free text responses on suggestions.

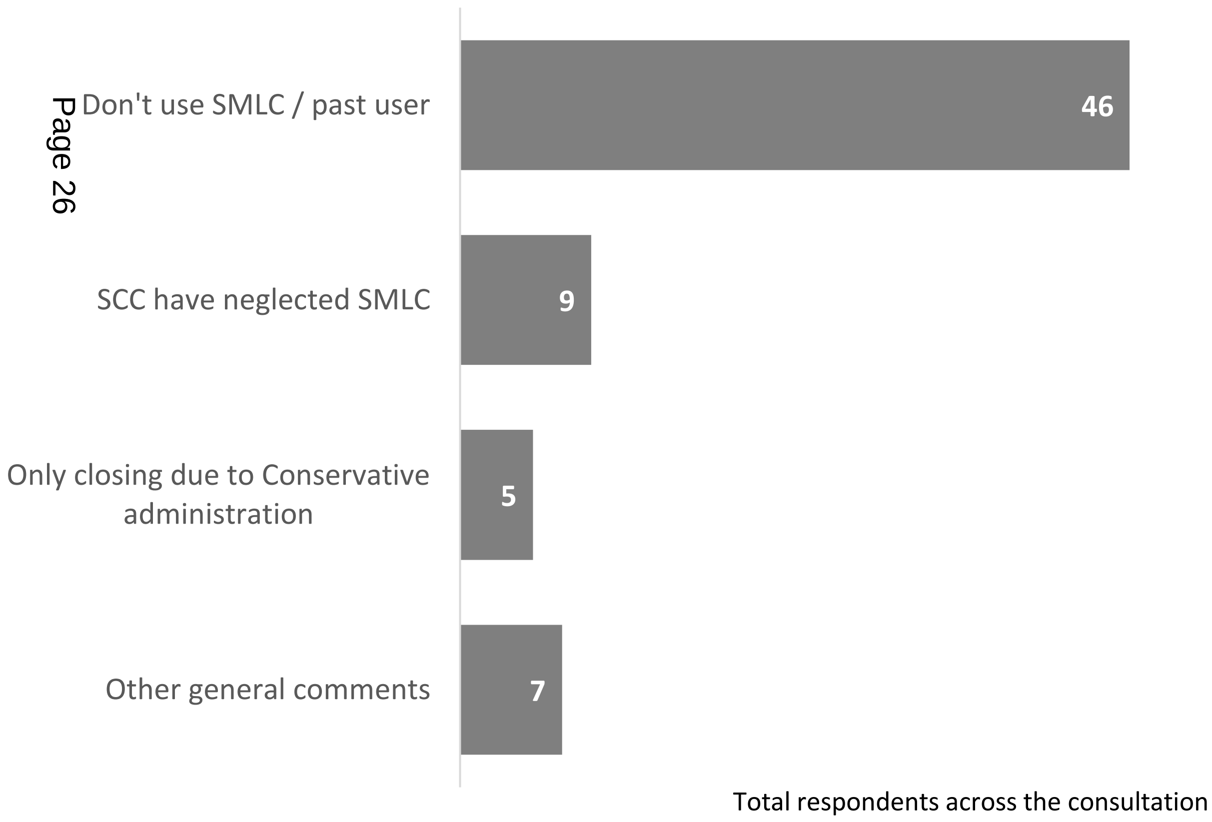
A total of **114** respondents provided a comment on suggestions.
The following graph shows the total number of respondents by each theme of comment.



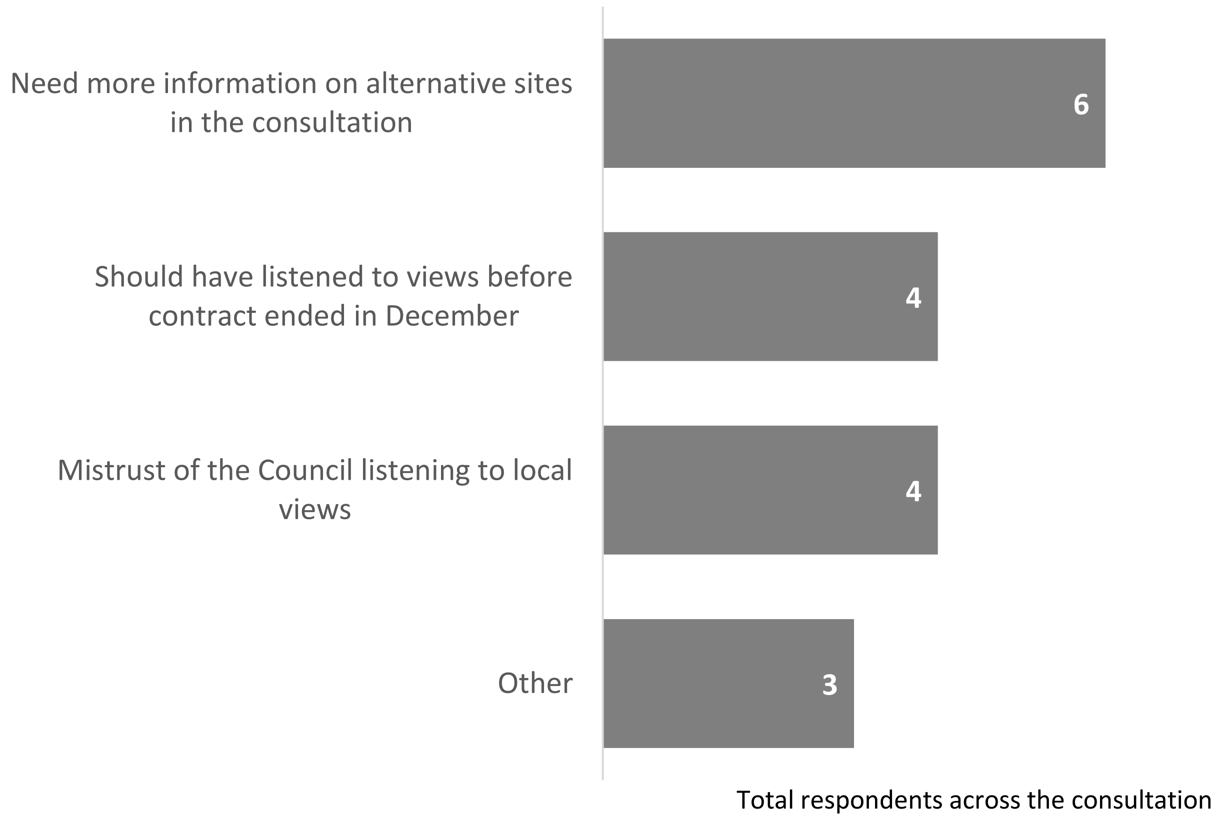
Free text responses on general comments and consultation process.

A total of **67** respondents provided a comment on general comments.
A total of **17** respondents provided a comment on the consultation process.
The following graphs shows the total number of respondents by each theme of comment.

General comments



Consultation process



Appendix 2 - Alternative arrangements

Existing activity/group at SMLC	Available at Solent Complex (East Park Terrace)	Other venues arranged
Muslim women only sessions	Available at Solent complex on Wednesday and Friday mornings (additional Saturday morning session is being trialled to assess uptake)	
All age groups gym access	Discounted gym member rate of £10.99 per month for holders of Smartcities card and other public members pay £13.99. Opening hours to public: 12 Noon - 8.30pm weekdays and 9.30 - 5pm weekends	
Squash players	No contact made with SU or SCC officers	
*Fitrah School - multi-sports	1pm-2 on Tuesdays slot. Running (with some mutual exceptions) until 19th July with ambition to continue in September	
Sharks wheelchair rugby	Already in place at Solent Complex	
**Volleyball groups	Some Wednesday morning time possible from March as well as casual 7 day in advance booking	Active Nation advised they could facilitate at Bitterne leisure centre. Contact details provided to Volleyball groups
**Kestrel basketball	Already in place at Solent Complex	
*City Centre Football	City Centre football booked in Sat morning slot	
Other football groups	No contact made with SU	
*Cricket groups	Cricket Wicketz group booked in 4 - 5pm Tuesday/Thursday and Friday. Other group has not made contact with SU or SCC.	

Appendix 2 - Alternative arrangements

**Other basketball groups	No fixed basketball sessions available but public access to "shoot the hoops" available on pay and play basis via the adhoc booking option	
Table tennis		Officers have reached out to assist but group has identified an alternative
*50 + Badminton**	Booked in on Thursdays 11-1pm	
Roller Derby skating		Booked at Chamberlayne Leisure Centre until 1st June 2022. SCC officers are looking into a longer term solution
Dance	Potentially scope within fitness rooms but not immediately available. No contact made with SU	
Monthly Racket memberships	No contact made with SU or SCC officers	
*Boccia group (Paralympic sport similar to bowls)	Booked at SU Monday 1-2 and Friday 10-1 starting late February. Will be provided by SU free of charge.	

** As part of SU's activity to support the community, SU has committed to provide facilities to these groups at Solent Complex until at least 1st May 2022 (with the likelihood of this being extending further around SU's academic provision).*

***In addition to the set activities/services set out above, SU review availability of the multi-sports hall on a weekly basis and where it exists, payable adhoc slots are available to the community on a casual basis by booking directly with SU.*

In addition to the above, SU are in discussion with the Saints Foundation - Active Through Football programme (designed to boost activity levels in those who face issues/inequalities with being physically active) around holding a weekly session at Solent Complex to maximise access for those within the city who may otherwise be unable to participate.

Appendix 3 – Class E and F of Schedule 2

SCHEDULE 2

PART A Commercial, Business and Service

Class E. Commercial, Business and Service

Use, or part use, for all or any of the following purposes—

(a) for the display or retail sale of goods, other than hot food, principally to visiting members of the public,
(b) for the sale of food and drink principally to visiting members of the public where consumption of that food and drink is mostly undertaken on the premises,
(c) for the provision of the following kinds of services principally to visiting members of the public—
(i) financial services,
(ii) professional services (other than health or medical services), or
(iii) any other services which it is appropriate to provide in a commercial, business or service locality,
(d) for indoor sport, recreation or fitness, not involving motorised vehicles or firearms, principally to visiting members of the public,
(e) for the provision of medical or health services, principally to visiting members of the public, except the use of premises attached to the residence of the consultant or practitioner,
(f) for a creche, day nursery or day centre, not including a residential use, principally to visiting members of the public,
(g) for—
(i) an office to carry out any operational or administrative functions,
(ii)the research and development of products or processes, or
(iii)any industrial process,
being a use, which can be carried out in any residential area without detriment to the amenity of that area by reason of noise, vibration, smell, fumes, smoke, soot, ash, dust or grit.

PART B Local Community and Learning

Class F.1 Learning and non-residential institutions

Any use not including residential use—
(a) for the provision of education,
(b) for the display of works of art (otherwise than for sale or hire),
(c) as a museum,
(d) as a public library or public reading room,
(e) as a public hall or exhibition hall,
(f) for, or in connection with, public worship or religious instruction,
(g) as a law court.

Class F.2 Local community

Use as—
(a) a shop mostly selling essential goods, including food, to visiting members of the public in circumstances where—
(i) the shop's premises cover an area not more than 280 metres square, and

(ii) there is no other such facility within 1000 metre radius of the shop's location,

(b) a hall or meeting place for the principal use of the local community,

(c) an area or place for outdoor sport or recreation, not involving motorised vehicles or firearms,

(d) an indoor or outdoor swimming pool or skating rink.".

Appendix 4

Equality and Safety Impact Assessment

The **Public Sector Equality Duty** (Section 149 of the Equality Act) requires public bodies to have due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations between different people carrying out their activities.

The Equality Duty supports good decision making – it encourages public bodies to be more efficient and effective by understanding how different people will be affected by their activities, so that their policies and services are appropriate and accessible to all and meet different people's needs. The Council's Equality and Safety Impact Assessment (ESIA) includes an assessment of the community safety impact assessment to comply with Section 17 of the Crime and Disorder Act and will enable the Council to better understand the potential impact of proposals and consider mitigating action.

Name or Brief Description of Proposal	**Discontinuation of indoor sports and recreation services at St Mary's Leisure Centre (SMLC)**
Brief Service Profile (including number of customers)	
It is proposed that sports and recreation services are discontinued at SMLC based on the content of this ESIA and the Council's emerging citywide strategy in respect of leisure. SMLC, which is situated in the inner-city Bevois Ward (in St Mary's Road) is currently used for exercise classes, racket sports (including squash) and indoor team sports. The building also houses a gymnasium, but this is not in current use. SMLC also contains a variety of other rooms, some of which are not useable for health and safety or other reasons. Access to SMLC is available on a pay as you go basis to people of all abilities and fitness levels irrespective of their age. **Background** Solent University ("SU") initially managed SMLC as a leisure facility under a Service Concession from 01/08/10 to 31/06/19. SU used the facility to deliver a sports-related academic programme. The local community were encouraged to access the facilities, although this access was restricted around the priorities associated with SU's academic provision. Since July 2019, SMLC has continued to be operated by SU on behalf of the Council with the Council paying SU's costs and taking the risk on the income. This new arrangement with SU ends on 31/12/2021 meaning that SMLC shall close with effect	

from 01/01/2022. Allowing for the usual Christmas period closure, the final date of operational activities at SMLC shall be 22nd December 2021.

Alongside its primary purpose as an academic sports facility, since 2010, SMLC has provided indoor sports and recreation opportunities for the local community who may not be willing to travel outside of their very immediate surroundings in order to access leisure facilities. It has also provided classes for particular community groups who may not feel comfortable undertaking such activity in a group with ‘open’ access, such as Muslim women-only exercise sessions, although these sessions have not been provided at SMLC since July 2019.

User figures

During certain periods of 2020 and 2021, SMLC was closed in accordance with the Health Protection (Coronavirus) Regulations 2021 and Government guidance. As a result, the usage of SMLC was affected.

Usage in calendar year 2021 to date is as follows:

Month	Users
January (closed in accordance with Coronavirus regulations)	0
February (closed in accordance with Coronavirus regulations)	0
March (closed in accordance with Coronavirus regulations)	0
April (closed in accordance with Coronavirus regulations)	0
May (re-opened on 17th May in accordance with Coronavirus regulations)	195
June	707
July	1,091
August	1,037
September	1,603

Historical annual usage levels per calendar year were:

Calendar year	Users
2020	16,599
2019	19,660 (Note: user data is estimated for January to May 2019 as a result of the exit of the original agreement with SU affecting reporting during this period).
2018	66,875

Notwithstanding the impact of the COVID pandemic during 2020 and 2021, the data demonstrates that usage of SMLC has decreased over recent years. This is due largely to the ceasing of the original contract between the Council and SU which aligned with SU opening their new academic leisure facility at East Park Terrace and transfer of the academic users from SMLC to this facility.

East Park Terrace is situated approximately 0.2 miles from SMLC and caters for SU’s sports-related programme and associated users, which have historically made up the majority of SMLC users.

Summary of Impact and Issues

Southampton Data Observatory data shows that within the Bevois Ward of Southampton, the population is circa 25,300 based on the most recent data available, which is from 2018.

Data for where users and visitors to SMLC live is not collected by SU and therefore it is difficult to assess what percentage of current users and visitors are from local communities and how many people travel over 1.5 miles.

In 2018 the user profile included 7% children and young people, 1% people with long term conditions/disabilities and 65% people from Minority Ethnic communities.

Data shows that within the Bevois Ward there are higher than average levels of crime, anti-social behaviour, crime affected by alcohol, drug related crime, and violent crime. Statistically there are a disproportionately high number of citizens from minority ethnic communities compared to the city average. The data also shows life expectancy is lower than the city average. The profile confirms the numbers of children from low-income households is higher than the city average.

A consultation was carried out in August 2019 for 12 weeks, regarding a proposal to create a community hub in the building. When asked how to use the space in the future the highest two responses propose usage for sports and wellbeing and for community-driven use. The highest percentage of people completing the survey were from the Bevois area of the City. This consultation informed the Council's approach to service delivery between its completion and the current date.

There are also a limited number of squash courts available within the city, two public pay and play squash courts at SMLC, three squash courts pay and play at University of Southampton Jubilee Sports Centre and three courts at David Lloyd that are offered on a registered membership basis. The Indoor Built Sports Facilities Strategy (IBSFS) commissioned by the Council indicated that the existing squash provision in the city should be retained so the removal of squash provision at SMLC will need to be considered in this context. Increasingly, squash courts are provided through squash clubs/multi-sport clubs, as opposed to local authority facilities. This reflects the fact that participation in the sport has considerably reduced from its significant growth in the 1970's, and there is less demand for community access squash courts.

Impacts may be offset through the usage of a variety of alternative leisure venues in the area as listed in Alternative Sports Facilities contained as Appendix A ("Appendix A").

In addition to the Alterative Sports Facilities, SU currently provide the following community classes at the East Park Terrace academic leisure facility (which is situated approximately 0.2 miles from SMLC) which are open to public use:

- Health4her on Wednesday and Friday mornings (This is a weight loss programme for females only and caters for cultural and religious restrictions, enabling women to experience and enjoy a variety of sports and physical activity).
- Exercise referral diabetic clinic on Monday mornings and evenings and Wednesday evening
- Sports therapy and personal training daily
- Community use of sports hall by Kestrels basketball and Sharks wheelchair rugby
- Discounted gym member rate of £10.99 per month for holders of Smartcities card with other public members paying £13.99. Opening hours to public: 1pm - 8.30pm weekdays and 9.30 - 5pm weekends.

As part of SU's activity to support the community, SU has committed to provide access to facilities at East Park Terrace from 4th January 2022 until at least 1st May 2022 (with the likelihood of this being extending further around SU's academic provision) for the following groups:

- Cricket Wicketz have slots booked for use of sports hall
- 50+ badminton group booked for use of facilities
- Boccia group booked for use of facilities
- City centre football
- Fitrah School has a slot for multi-sports lessons

Additional support has been given to users to access alternative venues as follows:
- Roller Derby group have access to facilities at Chamberlayne Leisure Centre
- Table tennis group have found alternative facilities
- Volleyball groups have been provided with details of alternative provision from Bitterne Leisure Centre.

Potential Positive Impacts

There is an ongoing revenue saving of £147,000 per annum associated with the closure of SMLC.

A conditions survey has indicated £382,309 of investment would be required to maintain the building due to its poor condition. Day-to-day repairs and maintenance costs (depending on the level of investment made) are estimated to be £60,000 per annum. These costs would be avoided.

Due to health and safety considerations certain areas of the building are unusable. There is also limited access to certain areas of the building for disabled users.

The facility is not currently well used and the building continues to deteriorate, disposing of the building may result in a more appropriate use.

Users of St Mary's Leisure Centre will be able to access a variety of alternative leisure venues in the area including Solent University's new Solent Sports Complex,

the Quays Leisure Centre and Bitterne Leisure Centre. Further information can be found in the consultation document and in Appendix A to this document.	
Responsible Service Manager	Katie Renouard
Date	24/11/2021
Approved by Senior Manager	Paul Paskins
Date	24/11/2021

Potential Impact

Impact Assessment	Details of Impact	Possible Solutions & Mitigating Actions
Age	Impact on children and young people. Fitrah Southampton Islamic Primary and Secondary (Sips) school uses SMLC for PE classes one afternoon per week as they do not have facilities on the school site. Data suggests 24.3% of children live in houses of low income and 22.4% of households are in fuel poverty. Loss of this leisure facility could impact on childhood obesity and anti-social behaviour due to limited facilities in the local area.	Alternative facilities are listed in Appendix A. Fitrah School have been offered a slot at East Park Terrace which it has accepted.
Disability	No impact as the wheelchair rugby teams are already using the sports hall at the East Park Terrace academic leisure facility.	.N/A
Gender Reassignment	No significant impact	N/A
Marriage and Civil Partnership	No significant impact	N/A
Pregnancy and Maternity	No significant impact	N/A
Race	No impact as Health4her sessions are already being provided at the East Park Terrace academic leisure	N/A

Impact Assessment	Details of Impact	Possible Solutions & Mitigating Actions
	facility.	
Religion or Belief	No impact as Health4her sessions are already being provided at the East Park Terrace academic leisure facility.	N/A
Sex	No impact as Health4her sessions are already being provided at the East Park Terrace academic leisure facility.	N/A
Sexual Orientation	No significant impact.	N/A
Community Safety	Lack of facilities in the local area could have an impact on anti-social behaviour which is above city-wide average figures.	Signpost and promote other youth activities in the local area.
Poverty	Families in low-income households may not have the means to travel to other sites.	Review travel policies and options for reduced travel costs.
Health & Wellbeing	Negative impact on all age groups within the community who will need to travel to access similar facilities. Specifically, could impact on obesity rates, especially among school age children that attend the site for PE lessons.	Alternative facilities are listed in Appendix A. Provide signposts to pay as you go gyms within the city centre. Fitrah School have been offered a slot at East Park Terrace which it has accepted
Other Significant Impacts	Reducing the number of squash facilities within the city.	Alternative facilities are listed in Appendix A. Provide signposts to pay as you go squash facilities within the city centre.

Appendix A: Alternative Indoor Sports Facilities

Name of Site	Distance from SMLC	No of courts	Ownership	Facilities provided	Participation
Bitterne Leisure Centre	2.7 miles	4	Local Authority but operated by a third party.	Gym, Pools, Sports hall for football*, basketball*, badminton*, netball*, cricket*, table tennis*, gymnastics**.	*Pay and Play and also block bookings **Block booking only
Bitterne Park School	2.6 miles	4	Community School	Sports hall, outdoor hard courts-evening and weekends	Sport Club
Boulder Shack	0.5 miles		Private facility	Climbing wall, yoga	Pay and play
Cantell School	3.5 miles	4	Community School	Sports hall, badminton, gym outdoor hard courts	Sports Club
Chamberlayne Leisure Centre	3.0 miles	4	Local Authority but operated by a third party.	Gym, Sports hall for football, basketball, badminton, netball, cricket, table tennis, gymnastics.	*Pay and Play and also block bookings **Block booking only
Cherry's Fitness Suite	0.5 miles		Private facility	Pilates and Barre training	
Curves Ladies only fitness centre	2 miles		Private facility	Ladies only gym and dieting advice	Club membership
David Lloyd Club (Southampton)	5.9 miles	4	Private Club	Gym, swimming pool, exercise classes, tennis courts	Registered Membership

Name of Site	Distance from SMLC	No of courts	Ownership	Facilities provided	Participation
Fit 4 Less	0.3 miles		Private facility	Gym, fitness classes, personal trainers	Pay as you go
Itchen College Sports Centre	2.9 miles	4	Further Education	Sports hall- aerobics studio, gym	Sports Club
King Edward Vi School	2.2 miles	5	Independent School	Swimming pool, sports field	Private Use
Mayflower Gym	0.5 miles		Southampton University	Gym, fitness classes	Membership
Next Generation Martial Arts	1.1 miles		Private facility	Martial arts training	
Oasis Academy Lords Hill (Upper School)	5.5 miles	4	Education - Academy	Sports hall, gym, dance studio	Sports Club
Oasis Academy Mayfield	3.4 miles	4	Education - Academy	Sports hall, badminton courts, outdoor hard courts, Gym	Sports Club
Oasis Academy Sholing	3.1 miles	4	Community School	Gym, outdoor astro turf football pitches	Sports Club
Pound for Pound	0.7 miles		Private facility	Boxing, personal trainers, sauna	

Name of Site	Distance from SMLC	No of courts	Ownership	Facilities provided	Participation
Pure Gym	0.9 miles		Private facility	Gym, fitness classes, personal trainers	Membership
Redbridge Community School	4.2 miles	4	Community School	Sports hall, outdoor astro turf and grass pitches	Sports Club
Richard Taunton College	2.5 miles	4	Further Education	Sports hall, hard courts, grass pitches	Sports Club
Southampton Solent University (East Park Terrace)	0.2 miles	4	Higher Education	Sports hall, gym, exercise studios	Registered Membership and pay and Play
Spartans Gym	1 mile		Private facility- includes pay as you go	Gym, fitness classes, personla trainers, nutrition programmes	Membership
Testlands Hub	4.9 miles	4	Community School	Sports hall, badminton court, studio, gym, outdoor grass and hard courts	Sports Club
The Gym	0.8 miles		Private facility	Gym, fitness classes, personal trainers	Membership
University of Southampton (Jubilee Sports Centre)	2.7 miles	8	Higher Education	Gym, swimming pool, sports hall, squash courts, exercise studios, bouldering wall	Sports Club-membership and Pay and Play

Name of Site	Distance from SMLC	No of courts	Ownership	Facilities provided	Participation
Woodlands Community College	3.6 miles	4	Community School	Gym for badminton and basketball, sports hall, outdoor hard courts and grass football pitches	Sports Club

**Sport England identifies sports halls as 3 court badminton halls and above and provide facilities for team sports such as netball, volleyball, basketball etc. Activity halls are smaller halls, normally of 1 badminton court size but may not be marked out for badminton but can cater for some sports and physical activity.*

DECISION-MAKER:		CABINET		
SUBJECT:		FINANCIAL MONITORING FOR THE PERIOD TO THE END OF DECEMBER 2021		
DATE OF DECISION:		21 FERUARY 2022		
REPORT OF:		CABINET MEMBER FOR FINANCE & CAPITAL ASSETS		
		CONTACT DETAILS		
Executive Director	**Title:**	Executive Director for Finance, Commercialisation & S151 Officer		
	Name:	John Harrison	**Tel:**	023 80834897
	E-mail:	John.Harrison@southampton.gov.uk		
Author:	**Title:**	Head of Financial Planning & Management		
	Name:	Steve Harrison	**Tel:**	0739 2864525
	E-mail:	Steve.Harrison@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY
Annex 2.2a is confidential, the confidentiality of which is based on category 3 of paragraph 10.4 of Councils Access to Information Procedure Rules. It is not in the public interest to disclose this because doing so would prejudice the authority's ability to achieve best consideration in financing the programme.

BRIEF SUMMARY

The report summarises the General Revenue Fund, Housing Revenue Account (HRA) and Collection Fund financial position for the Council as at the end of December 2021 and informs Cabinet of any major changes in the overall General Fund and HRA capital programme for the period 2021/22 to 2025/26. It also provides an update on the impact of COVID-19 on the Council's financial position.

The deficit as outlined in this report is £7.48M for 'business as usual activities' plus a further £0.72M net budget pressure for COVID-19 related spending, bringing the total to £8.20M forecast overspend as at 31 December 2021. The main factors behind this deficit forecast are (i) a deficit of £6.00M forecast within Children's Social Care (both for BAU and COVID-19) and (ii) a deficit of £1.11M forecast within Health and Adults Social Care (Both BAU and COVID-19). Hence, in total the deficit forecast within both areas of social care is £7.11M.

It is planned to meet the £8.20M forecast overall deficit from the Social Care Demand Reserve (£6.75M) and centrally held budgets (£1.45M).

RECOMMENDATIONS:

	General Revenue Fund It is recommended that Cabinet:	
	i)	Notes the forecast outturn position for business as usual activities is a £7.48M deficit, as outlined in paragraph 4 and in paragraph 1 of appendix 1.
	ii)	Notes the financial position arising from COVID-19 is a deficit of £0.72M, as

		outlined in paragraph 5 and in paragraph 4 of appendix 1.
	iii)	Notes that £6.75M will be drawn down from the Social Care Demand Reserve and £1.45M released from centrally held contingency to meet the forecast General Fund deficit. A further £1.14M will be drawn down from the Social Care Demand Reserve to meet additional staffing costs in Health & Social Care, as outlined in paragraph 6.
	iv)	Notes the performance of treasury management, and financial outlook in paragraphs 9 to 12 of appendix 1.
	v)	Notes the forecast year end position for reserves and balances as detailed in paragraphs 13 and 14 of appendix 1.
	vi)	Notes the Key Financial Risk Register as detailed in paragraph 15 of appendix 1.
	vii)	Notes the performance against the financial health indicators detailed in paragraphs 19 and 20 of appendix 1.
	viii)	Notes the forecast outturn position outlined in the Collection Fund Statement detailed in paragraphs 24 to 27 of appendix 1.
	Housing Revenue Account It is recommended that Cabinet:	
	ix)	Notes the forecast outturn position on business as usual activities is a surplus of £0.92M as outlined in paragraph 6 and paragraph 21 of appendix 1.
	x)	Notes that a break even position is forecast arising from COVID-19, as outlined in paragraph 6 and paragraph 22 of Appendix 1.
	Capital Programme It is recommended that Cabinet:	
	xi)	Notes the revised General Fund Capital Programme, which totals £428.21M as detailed in paragraph 1 of appendix 2.
	xii)	Notes the HRA Capital Programme is £340.81M as detailed in paragraph 1 of appendix 2.
	xiii)	Notes that the overall forecast position for 2021/22 at quarter 3 is £125.83M, resulting in a potential surplus of £41.32M, as detailed in paragraphs 4 and 5 of appendix 2.
	xiv)	Notes that the capital programme remains fully funded up to 2025/26 based on the latest forecast of available resources although the forecast can be subject to change; most notably regarding the value and timing of anticipated capital receipts and the use of prudent assumptions of future government grants to be received.
	xv)	Notes slippage and rephasing of £59.09M (£59.82M of General Fund net slippage and £0.74M of HRA net rephasing) as detailed in paragraph 5 and 7 of appendix 2. Noting that the movement has zero net movement over the 5-year programme.
	xvi)	Notes that £1M surplus is forecast arising from COVID-19 as detailed in paragraph 8 of appendix 2.
REASONS FOR REPORT RECOMMENDATIONS		

1.	To ensure that Cabinet fulfils its responsibilities for the overall financial management of the Council's resources.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	Not Applicable.
DETAIL (including consultation carried out)	
	Revenue
3.	The financial position for the General Revenue Fund, Housing Revenue Account (HRA) and Collection Fund for the Council as at the end of December 2021 and key issues are summarised in appendix 1.
4.	The current forecast spending on business as usual activities against the council's net General Fund revenue budget for the year of £173.85M is projected to be a £7.48M deficit. The position has worsened by £0.37M compared to the position as at the end of quarter 2.
5.	The forecast General Fund variance relating to COVID-19 pandemic budgets as at the end of December 2021 is a deficit of £0.72M. The position has worsened by £0.36M compared to the position as at the end of quarter 2. The Council also continues to receive major sums of money in grant in support of the additional costs the Council and local community has experienced from COVID. These sums either help SCC directly or are for SCC to administer and help third parties. They total received in 2021/22 is £58.78M and are listed at Annex 1.2.
6.	The combined business as usual and COVID-19 forecast deficit of £8.20M on the General Fund for 2021/22 will be met from a £6.75M drawdown on the Social Care Demand Reserve and release of £1.45M from centrally held contingency. A further £1.14M will be drawn down from the Social Care Demand Reserve to meet additional staffing costs within Health & Adult Social Care.
7.	The forecast position for the HRA on business as usual activities is a surplus of £0.92M against an expenditure budget of £75.87M. The overall position has not changed compared to the position at the end of quarter 2. There is a forecast break even position relating to the COVID-19 pandemic for the HRA, a worsening by £0.57M compared to the position as at the end of quarter 2.
	Capital
8.	Appendix 2 sets out any major changes in the overall General Fund and Housing Revenue Account (HRA) capital programme for the period 2021/22 to 2025/26, highlighting the changes in the programme since the last reported position in November 2021. The report also notes the major forecast variances against the approved estimates.
9.	The current forecast position for 2021/22 at quarter 3 is £125.83M, resulting in a potential surplus of £41.32M, as detailed in paragraphs 4 and 5 of appendix 2.
RESOURCE IMPLICATIONS	
Capital/Revenue	
10.	The revenue and capital implications are contained in the report.
Property/Other	
11.	There are no specific property implications arising from this report other than the

	schemes already referred to within appendix 2 of the report.
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
12.	Financial reporting is consistent with the Section 151 Officer's duty to ensure good financial administration within the Council.
Other Legal Implications:	
13.	None.
RISK MANAGEMENT IMPLICATIONS	
14.	See comments within report.
POLICY FRAMEWORK IMPLICATIONS	
15.	The update of the Capital Programme forms part of the overall Budget Strategy of the Council.

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	All

SUPPORTING DOCUMENTATION

Appendices

1.	Revenue Financial Monitoring
2.	Capital Financial Monitoring

Documents In Members' Rooms

1.	None
2.	
Equality Impact Assessment	
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out?	No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out?	No
Other Background Documents **Equality Impact Assessment and 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.	The Revenue Budget 2021/22, Medium Term Financial Forecast 2021/22 to 2024/25 and Capital Programme 2020/21 to 2025/26 (Council 24 February 2021)	
2.		

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	REVENUE FINANCIAL MONITORING FOR THE PERIOD TO DECEMBER 2021
	FINANCIAL POSITION
1.	The current forecast spending against the Council's net General Fund revenue budget on business as usual (BAU) activities for the year is projected to be a £7.48M deficit. The forecast for portfolios net expenditure has worsened by £0.64M compared to the position as at the end of quarter 2. The BAU financial position is summarised in Table 1 below, together with the corporate funds to be applied to meet the forecast deficit.

Table 1 – General Revenue Fund Business as Usual Forecast 2021/22

	Budget Qtr 3 £M	BAU Annual Forecast Qtr 3 £M	BAU Forecast Variance Qtr 3 £M	BAU Forecast Variance Qtr 2 £M	BAU Variance Movement from Qtr 2 £M
Portfolios Net Expenditure	214.88	222.62	7.75 A	7.11 A	0.64 A
Non-Portfolio Net Expenditure	(41.02)	(41.02)	0.00	0.00	0.00
Net Revenue Expenditure	**173.85**	**181.60**	**7.75 A**	**7.11 A**	**0.64 A**
Financing	(173.85)	(174.12)	0.27 F	0.00	0.27 F
(Surplus) / Deficit	**0.00**	**7.48**	**7.48 A**	**7.11 A**	**0.37 A**
To be met from the Social Care Demand Reserve			**6.75 F**		
To be met from centrally held budgets			**0.73 F**		
(Surplus)/Deficit after applying corporate funds			**0.00**		

NB Numbers are rounded

2.	The most significant adverse variance on business as usual activities continues to be for the Children's Social Care portfolio, which is forecast to be in deficit by £6.30M, an increase of £0.38M from quarter 2. The full extent of the deficit is partly masked by a transfer of the JIGSAW service to the Education portfolio. Without this transfer the Children's Social Care deficit would have been £1.56M higher. This deficit relates mainly to Looked After Children Provision, with increased numbers and cost of placements and cases and additional staffing costs. At its meeting on 15 November 2021, Cabinet approved the use of corporate funds to meet £1.3M of this deficit relating to costs of unfunded service critical posts. These staffing costs are included in the deficit noted above and are being met from a drawdown from the Social Care

	Demand Reserve, forming part of the £6.75M total drawdown from the Reserve set out in Table 1.
3.	A further £1.14M will be drawdown from the Social Care Demand Reserve in 2021/22 to meet additional staffing costs within Health & Adult Social Care, with the on-going impact included as part of the budget pressures outlined in the 2022/23 Budget Report. These additional staffing costs are not included in the £1.09M BAU forecast deficit for Health & Adult Social Care shown in Annex 1.1.
4.	The current forecast variance due to COVID-19 is a £0.72M adverse variance, a worsening of £0.36M compared to the position as at the end of quarter 2. The COVID-19 financial position is summarised in Table 2 below, together with the corporate funds to be applied to meet the forecast deficit.

Table 2 – General Revenue Fund Forecast COVID-19 Variance 2021/22

	COVID Forecast Variance Qtr 3 £M	**COVID Forecast Variance Qtr 2 £M**	**COVID Variance Movement from Qtr 2 £M**
Portfolios Net Expenditure	2.24 A	1.86 A	0.37 A
Non-Portfolio Net Expenditure	0.00	0.00	0.00
Net Revenue Expenditure	**2.24 A**	**1.86 A**	**0.37 A**
Financing	1.51 F	1.50 F	0.01 F
(Surplus) / Deficit	**0.72 A**	**0.36 A**	**0.36 A**
To be met from centrally held budgets	**0.72 F**		
(Surplus)/Deficit after applying corporate funds	**0.00**		

NB Numbers are rounded

5.	The budget agreed by Council in February 2021 included provision for expected pressures from COVID-19 related additional expenditure and income losses. The most significant adverse variance for COVID-19 is in the Growth portfolio, which is forecasting a COVID-19 deficit of £1.37M, most of which is reduced income from parking and Itchen Bridge toll fees and planning applications. The Council is expecting to receive a total of £1.51M of fees and charges losses compensation plus grant income for new duties carried out as a result of COVID-19, which will help to offset the shortfall.
6.	More detail, including explanations of significant movements in variances between quarter 2 and quarter 3 (in excess of £0.2M) is provided in Annex 1.1.

7.	In June 2020, Council agreed that in order to help respond quickly to the pandemic, agreeing significant grants and associated spending could be delegated to the S151 officer, following consultation with senior members of the Cabinet. Annex 1.2 reports grants received in 2021/22 which are COVID-19 related, for information.
	Implementation of Savings Proposals
8.	Of the £10.77M savings plans included within the 2021/22 budget £9.52M have been achieved or are on track to be achieved before the end of this financial year. £0.38M of the remaining £1.25M have not been progressed because of the COVID-19 pandemic and are included within the COVID forecast variance reported in Table 2 above.
	Treasury Management
9.	Treasury Management borrowing and investment balances as at 31 December 2021 and forecasts for the year-end are set out in Annex 1.3. After taking into account maturing and new debt requirements in year and a forecast reduction in investment balances, net borrowing is expected to increase by £140.28M for 2021/22. This will change throughout the year as capital plans firm up and actual cash flow are known. The forecast cost of financing the council's loan debt is £15.21M of which £4.90M relates to the HRA, however this will be subject to movement as the need for further borrowing for the remainder of the year becomes more certain.
10.	Although we currently do not have any short term debt, we anticipate borrowing before year end to replace maturing long term debt, expected reduction in reserves and to fund the forecast capital programme for the year, until a decision is taken with regards to long term borrowing. Any increase in short term borrowing costs will be offset by a reduction in long term costs. This is later than previously reported as cash flows have remained higher than expected.
11.	The Council will continue to monitor the impact of COVID-19 on financial markets and provide updates via the Treasury Management reports to Governance Committee.
12.	Annex 1.3 includes an overview of current performance along with an update on the financial outlook. The Council approved a number of indicators at its meeting in February 2021. The Council has operated within the agreed prudential indicators for the first 9 months of the year and is forecast to do so for the remainder of the year. CIPFA published revised Prudential and Treasury Management Codes in December 2021. The impact of the new codes on the Council is being assessed. Guidance on the new codes, including treasury management prudential indicators, has not yet been published.
	Reserves & Balances
13.	The General Fund Balance is currently £10.07M with no planned drawdown during the year.
14.	At the 31 March 2021, earmarked revenue reserves totalled £130.38M, plus Schools Balances totalling £4.17M. The balance at 31 March 2021 included revenue grants totalling £35.04M carried forward via the Revenue Grants Reserve - General, predominantly relating to COVID-19, which are expected to be used in 2021/22. The estimated forecast position as at the 31 March 2022 is £77.55M, plus Schools Balances forecast to be £2.30M (excluding the £0.9M deficit for the school that converted to an Academy in September noted in paragraph 16). The council holds a

	Medium Term Financial Risk Reserve (MTFR), which exists to provide cover for a variety of anticipated risks such as future funding via Government financial settlements, budget management issues including any non delivery of expected savings and unexpected events that produce financial 'shocks'. The MTFR reserve is currently estimated as having a £32.65M balance unallocated. This reserve is also important as it creates capacity for transformation and invest to save measures and therefore enhances our financial resilience and sustainability.
	Key Financial Risks
15.	The Council maintains a financial risk register which details the key financial risks that face the Council at a given point in time. It is from this register that the level of balances and reserves is determined when the budget is set at the February Council meeting. The register has been reviewed and is attached as Annex 1.4.
	Schools
16.	As at 31 December 2021 there were 13 schools reporting a deficit balance totalling £3.3M Added to this, one school became an Academy on 1 September 2021, with a deficit of around £0.9M which will need to be covered by the Council under Government regulations and is included in the forecast use of corporate reserves. The total of deficits at quarter 3, including that of the new Academy school, is therefore around £4.2M, which compares with a forecast of £4.2M at the end of quarter 2. There are 30 schools reporting a surplus totalling £5.9M, of which £0.3M has been loaned to a school for a capital scheme. The net position is therefore an overall surplus of £2.3M for schools, excluding the deficit from the Academy transfer. All schools with deficit budgets continue to be supported by the Education Finance Team to develop Deficit Recovery Plans (DRP).
17.	The current 3-year deficit recovery timetable for schools in deficit to get back to a balanced budget may be extended to 5 years if necessary, for schools with significant COVID-19 pressures.
	Dedicated Schools Grant (DSG) 2021/22
18.	The forecast outturn for the Dedicated Schools Grant (DSG) as at the end of December 2021 is a £9.8M cumulative deficit, which includes £0.15M for COVID-19 related pressures. The deficit has grown by £1.0M due to increases in the number of pupils with an Education Health Care Plan (EHCP) within mainstream schools. The financial impact of fewer out of city placements should be available next quarter. The DSG Grant is ringfenced and the deficit will not impact on the General Fund and non-school services the Council provides. This deficit is being driven by significant year on year annual increases in the number and complexity of EHCPs and increasing numbers of pupils with Special Educational Needs and Disability (SEND) being placed in expensive out of city placements in independent school settings. A working party commenced a strategic review of High Needs activity to manage SEND demand and is increasing pupil capacity within the City to avoid external placements, with provision within the General Fund capital programme related to this. The deficit includes a brought forward deficit of £8.9M from the previous year, of which £8.0M is High Needs and £0.9M is from the impact of COVID-19 and lost fee income on Early Years. Pressures on the High Needs services is a nationally recognised issue with significant pressures reported in most local authorities as a result of historical grant funding allocations not having kept pace with

the significant demand increases in the number and complexity of children with SEND. The 12% increase in High Needs funding in 2021/22 and a £0.23M transfer from the schools block will mitigate some of the pressure being experienced but further work is needed to reduce costs where possible.

Financial Health Indicators

19. In order to make an overall assessment of the financial performance of the authority it is necessary to look beyond pure financial monitoring and take account of the progress against defined indicators of financial health. Annex 1.5 outlines the performance to date, and in some cases the forecast, against a range of financial indicators which will help to highlight any potential areas of concern where further action may be required.

20. For Income Collection, the outstanding debt more than 12 months old has increased from the quarter 2 position, mainly for commercial debt. Over half of the debt that has moved into the over 12 months age bracket relates to two customers with insolvency cases which are currently in the process of either liquidation or negotiation with their creditors. While there remains a possibility of payment (be it in full or partial) these debts are not being considered for write-off.

For Creditor Payments, the percentage of valid and undisputed invoices paid within 30 days has reduced from the quarter 2 position. Opportunities to further increase consolidated invoicing to improve processing and approval times are being explored, along with continuing to remind managers to approve invoices in a timely fashion. A bi-weekly report is now being used to engage with users who have approvals and goods receipts notes that are outstanding for more than 30 days.

Housing Revenue Account

21. The current forecast position for the Housing Revenue Account on business as usual (BAU) activities for the year is projected to be a surplus of £0.92M. There is no change to the overall forecast compared to the position as at the end of quarter 2. The BAU financial position is summarised in Table 3 below.

Table 3 – Housing Revenue Account Business as Usual Forecast 2021/22

	Budget Qtr 3 £M	BAU Annual Forecast Qtr 3 £M	BAU Forecast Variance Qtr 3 £M	BAU Forecast Variance Qtr 2 £M	BAU Variance Movement from Qtr 2 £M
Expenditure	75.87	74.73	1.14 F	1.14 F	0.00
Income	(75.87)	(75.65)	0.22 A	0.22 A	0.00
(Surplus) / Deficit	**0.00**	**(0.92)**	**0.92 F**	**0.92 F**	**0.00**

NB Numbers are rounded

22. The current HRA forecast variance due to COVID-19 is a break even position, with the £0.57M surplus that was reported at quarter 2 now being factored into the BAU forecast. The COVID-19 financial position is summarised in Table 4 below.

Table 4 – Housing Revenue Account Forecast COVID-19 Variance 2021/22

	COVID Forecast Variance Qtr 3 £M	COVID Forecast Variance Qtr 2 £M	COVID Variance Movement from Qtr 2 £M
Expenditure	0.00	0.57 F	0.57 A
Income	0.00	0.00	0.00
(Surplus) / Deficit	**0.00**	**0.57 F**	**0.57 A**

NB Numbers are rounded

23. Further details, including explanations of significant movements in variances between quarter 2 and quarter 3 (in excess of £0.2M) are provided in Annex 1.6.

Collection Fund

24. Annex 1.7 shows the forecast outturn position for the Collection Fund at quarter 3, with the position summarised in Table 5.

Table 5 – Collection Fund Forecast 2021/22

	Council Tax £M	Business Rates £M	Total £M
Contribution to previous years' estimated deficit	(2.60)	(52.31)	(54.91)
Net income and expenditure for 2021/22	(1.23)	27.89	26.66
Surplus for the year	**(3.83)**	**(24.42)**	**(28.25)**
Deficit brought forward from 2020/21	1.18	50.68	51.86
Overall Deficit/(Surplus) Carried Forward	**(2.65)**	**26.26**	**23.61**
SCC Share of Deficit/(Surplus)	**(2.25)**	**12.87**	**10.62**
Less: SCC additional Government Grant for business rates reliefs		(16.03)	(16.03)
SCC Net Share of Deficit/(Surplus) after additional Government Grant	**(2.25)**	**(3.16)**	**(5.41)**
Less: Estimated 2020/21 in-year deficit spread into 2023/24	(0.22)	(0.98)	(1.20)
SCC Net Share of Deficit/(Surplus) after additional Government Grant to be taken into account in 2022/23 budget setting	**(2.47)**	**(4.14)**	**(6.61)**

NB Numbers are rounded

25. The position on the Collection Fund as a whole is a deficit to be carried forward of £23.61M before extra Government grant. The deficit primarily relates to the

	Government's continuation of the business rates expanded retail and nursery discount schemes (100% relief for April – June 2021 and 66% relief for the remainder of the year) (£23.73M relief) and the COVID Additional Relief Fund (CARF) scheme announced in December 2021 (£8.61M relief), a total of £32.34M additional relief compared to the original estimate. These additional reliefs are being funded in full by Government grant. Without these additional reliefs there would have been a surplus for the year. This forecast is based on bills raised for 2021/22 as at the end of December 2021. The overall deficit has increased by £8.25M compared to the position at quarter 2, largely due to the introduction of the CARF scheme.
26.	The table shows the net impact for SCC only as a forecast surplus of £5.41M, once the additional Government grant for extra business rates reliefs is factored in. This is a £0.68M worsening compared to the forecast at quarter 2. The surplus is a combination of a lower deficit being carried forward from 2020/21 into 2021/22 than had been estimated in January 2021 and better in-year performance due to fewer working age local council tax support claimants, less empty property business rates reliefs and a reduction in the amount required to be set aside for business rates appeals compared with what had been estimated. There is uncertainty as to what effect, if any, the recent upsurge in cases of COVID-19 may have and also if other economic factors such as energy price increases and higher inflation will have an impact on Collection Fund performance. As a risk area to the SCC budget, financial trends will be carefully monitored.
27.	To reduce the financial impact in 2021/22 of exceptional losses arising in 2020/21 due to the COVID-19 pandemic, the government made regulations to require 2020/21 in-year deficits to be spread over 3 years. For SCC this means £1.20M of the deficit brought forward from 2020/21 is being carried over into 2023/24 and does not form part of the Collection Fund surplus/deficit being taken into account in setting the 2022/23 budget, as noted in the budget report elsewhere on this agenda.
	Conclusion and Outlook
28.	This is the third report on our financial forecast for 2021/22 and we continue to separate the variances arising from the COVID-19 pandemic from those for business as usual (BAU) activities to enable a clearer view of the financial impact of the pandemic. The Council continues to face significant financial pressure on BAU, particularly within Children's Social Care. This is a major contributing factor behind a £7.48M deficit forecast for the year as at quarter 3 for BAU. Many of these pressures continue into 2022/23, as outlined in the budget report elsewhere on this agenda. The on-going response to and recovery from the COVID-19 pandemic continues to be a major issue. Budgetary pressure also continues to arise due to the pandemic, which is separately identified above and shows a deficit of £2.24M for portfolios. Losses of parking revenue, toll bridge fees and income from court cases to recover council tax and business rates are substantial factors behind the adverse variance. After allowing for the Government compensation and support for the extra administrative costs for dealing with COVID-19, estimated at £1.51M of funding, the net COVID-19 deficit is estimated as £0.72M. Government's scheme of compensation for fees and charges income lost due to COVID-19 ceased at the end of quarter 1, so any additional forecast reductions, over and above those currently factored into estimates, will produce a worsening forecast for the Council.

	The pay award for 2021/22 has not yet been settled, with the offer of a 1.75% increase being rejected by Trade Unions. A 0.5% assumption was made for pay, and provision set aside within centrally held budgets. Any agreement over this sum will be an additional cost strain, funded from centrally held budgets. Some additional grant funding for 2022/23 was allocated to the Council in the local government finance settlement, however, this only goes part way to meeting the budget pressures being experienced. The budget report elsewhere on this agenda sets out the measures being taken to balance the budget for next year. While the Council is currently in a solvent position, action needs to be taken in the medium term to address the shortfall between the Council's budgeted expenditure and anticipated funding. The forecast included in this quarterly report highlights the very major risks experienced from the strong demand level currently being seen within Children's Social Care. The action plan being implemented to mitigate this budget pressure will be regularly monitored to confirm delivery and allow for further corrective action if the situation does not improve as expected.

Annexes

1. General Revenue Fund Forecast Qtr 3 2021/22
2. COVID-19 Government Grants
3. Treasury Management Qtr 3 2021/22
4. Key Financial Risk Register Qtr 3 2021/22
5. Health Indicators Qtr 3 2021/22
6. HRA Forecast Qtr 3 2021/22
7. Collection Fund Qtr 3 2021/22

Appendix 2

OVERALL GENERAL REVENUE FUND FORECAST OUTTURN POSITION FOR 2021/22

A summary of the business as usual (BAU) forecast for quarter 3 2021/22 and movement since quarter 2 is shown in the following table:

Portfolio	**Budget Qtr 3 £M**	**BAU Annual Forecast Qtr 3 £M**	**BAU Forecast Variance Qtr 3 £M**	**BAU Forecast Variance Qtr 2 £M**	**BAU Variance Movement from Qtr 2 £M**
Children's Social Care	46.05	52.35	6.30 A	5.92 A	0.38 A
Communities, Culture & Heritage	12.55	12.25	0.30 F	0.12 F	0.18 F
Customer Service & Transformation	47.73	48.02	0.29 A	0.94 A	0.65 F
Education	10.77	12.38	1.60 A	0.04 A	1.56 A
Environment	1.56	1.49	0.07 F	0.12 F	0.05 A
Finance & Capital Assets	1.37	1.24	0.13 F	0.06 A	0.19 F
Growth	6.95	5.96	1.00 F	1.08 F	0.08 A
Health & Adult Social Care	82.89	83.98	1.09 A	1.46 A	0.37 F
Leader	5.00	4.95	0.05 F	0.01 F	0.04 F
Total Portfolios	**214.88**	**222.62**	**7.75 A**	**7.11 A**	**0.64 A**
Levies & Contributions	0.09	0.09	0.00	0.00	0.00
Capital Asset Management	7.95	7.35	0.60 F	0.00	0.60 F
Other Expenditure & Income	(49.06)	(48.46)	0.60 A	0.00	0.60 A
Net Revenue Expenditure	**173.85**	**181.60**	**7.75 A**	**7.11 A**	**0.64 A**
Council Tax	(103.68)	(103.68)	0.00	0.00	0.00
Business Rates	(26.56)	(26.56)	0.00	0.00	0.00
Non-Specific Government Grants	(43.61)	(43.88)	0.27 F	0.00	0.27 F
Total Financing	**(173.85)**	**(174.12)**	**0.27 F**	**0.00**	**0.27 F**
(SURPLUS) / DEFICIT	**0.00**	**7.48**	**7.48 A**	**7.11 A**	**0.37 A**

NB Numbers are rounded

The forecast variance due to COVID-19 as at quarter 3 2021/22 and movement since quarter 2 is shown in the table below:

Portfolio	COVID Forecast Variance Qtr 3 £M	COVID Forecast Variance Qtr 2 £M	COVID Variance Movement from Qtr 2 £M
Children's Social Care	0.30 F	0.30 F	0.00
Communities, Culture & Heritage	0.05 A	0.03 A	0.02 A
Customer Service & Transformation	0.03 A	0.21 A	0.18 F
Education	0.02 A	0.02 A	0.00
Environment	0.12 A	0.03 A	0.09 A
Finance & Capital Assets	0.90 A	1.06 A	0.16 F
Growth	1.37 A	0.77 A	0.60 A
Health & Adult Social Care	0.02 A	0.02 A	0.00
Leader	0.03 A	0.03 A	0.00
Total Portfolios	**2.24 A**	**1.86 A**	**0.37 A**
Levies & Contributions	0.00	0.00	0.00
Capital Asset Management	0.00	0.00	0.00
Other Expenditure & Income	0.00	0.00	0.00
Net Revenue Expenditure	**2.24 A**	**1.86 A**	**0.37 A**
Council Tax	0.00	0.00	0.00
Business Rates	0.00	0.00	0.00
Non-Specific Government Grants	1.51 F	1.50 F	0.01 F
Total Financing	**1.51 F**	**1.50 F**	**0.01 F**
(SURPLUS)/DEFICIT	**0.72 A**	**0.36 A**	**0.36 A**

NB Numbers are rounded

EXPLANATIONS BY PORTFOLIO

1. CHILDREN'S SOCIAL CARE PORTFOLIO

KEY REVENUE ISSUES – QUARTER 3 2021/22

The Portfolio is currently forecast to have a deficit of **£6.30M** for business as usual (BAU) activities, which represents a percentage variance against budget of 13.7**%.** The Portfolio forecast variance has moved adversely by **£0.38M** from the position reported at quarter 2.

In addition, there is a **£0.30M** surplus on the COVID-19 pandemic budget, no movement from the position reported at quarter 2.

	Forecast Variance Qtr 3 £M	**Forecast Variance Qtr 2 £M**	**Movement from Qtr 2 £M**	**% of budget**
Portfolio Outturn business as usual	**6.30 A**	**5.92 A**	**0.38 A**	**13.7**
COVID-19 Pandemic	**0.30 F**	**0.30 F**	**0.00**	
Total	**6.00 A**	**5.62 A**	**0.38 A**	

A summary of the Portfolio business as usual forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**BAU Forecast Variance Qtr 3 £M**	**BAU Forecast Variance Qtr 2 £M**	**BAU Variance Movement from Qtr 2 £M**
Looked After Children	4.08 A	4.39 A	0.31 F
Multi Agency Safeguarding Hub & Children in Need	0.43 A	0.34 A	0.09 A
Prevention & Inclusion Service	0.18 A	0.18 A	0.00
Quality Assurance Business Unit	0.30 A	0.21 A	0.09 A
Specialist Core Services	1.16 A	0.87 A	0.29 A
Divisional Management & Legal	0.15 A	0.12 F	0.27 A
Other	0.00	0.05 A	0.05 F
Total	**6.30 A**	**5.92 A**	**0.38 A**

The SIGNIFICANT business as usual movements between quarter 2 and quarter 3 for the Portfolio are:

Service Area	Movement in BAU Forecast Variance Between Qtr 2 and Qtr 3 £M	Explanation:
Looked After Children	0.31 F	There has been a management structure change and the JIGSAW service has been moved from the Children Social Care portfolio to the Education portfolio. This has resulted in a favourable variance movement of 1.56M within this service area. There has been an additional adverse movement in placement costs of £1.01M from increasing Children Looked After numbers as well as increased costs because of moves due to placement breakdown. The Children Social Care restructure as well as early intervention plans are currently being implemented to reduce this increasing placement spend. There is an adverse movement of £0.24M relating to additional staffing and agency required across the service to meet demand prior to the completion of the restructure of children social care that is currently underway.
Specialist Core Services	0.29 A	The adverse movement of £0.29M from quarter 2 relates to the extension of current agency staff to the year end as well as the recruitment of staff into permanent roles previously forecast as in year savings to manage the increased demand within this service.
Divisional Management & Legal	0.27 A	There is a forecast deficit movement of £0.27M relating to legal fees and court costs within the children’s service. Additional staffing resources have been brought in to manage the increases in court work this year.

A summary of the Portfolio COVID-19 forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**COVID Forecast Variance Qtr 3 £M**	**COVID Forecast Variance Qtr 2 £M**	**COVID Variance Movement from Qtr 2 £M**
Looked After Children	0.30 F	0.30 F	0.00
Total	**0.30 F**	**0.30 F**	**0.00**

There are no SIGNFICANT COVID-19 variance movements between quarter 2 and quarter 3 for the Portfolio.

2. COMMUNITIES, CULTURE & HERITAGE PORTFOLIO

KEY REVENUE ISSUES – QUARTER 3 2021/22

The Portfolio is currently forecast to have a surplus of **£0.30M** for business as usual (BAU) activities, which represents a percentage variance against budget of 2.5**%.** The Portfolio forecast variance has moved favourably by **£0.18M** from the position reported at quarter 2.

In addition, there is a **£0.05M** deficit on the COVID-19 pandemic budget, an adverse movement of £0.02M from the position reported at quarter 2.

	Forecast Variance Qtr 3 £M	**Forecast Variance Qtr 2 £M**	**Movement from Qtr 2 £M**	**% of budget**
Portfolio Outturn business as usual	**0.30 F**	**0.12 F**	**0.18 F**	**2.5%**
COVID-19 Pandemic	**0.05 A**	**0.03 A**	**0.02 A**	
Total	**0.25 F**	**0.09 F**	**0.16 F**	

A summary of the Portfolio business as usual forecast variance and movement since Quarter 2 is shown in the table below:

Service Area	**BAU Forecast Variance Qtr 3 £M**	**BAU Forecast Variance Qtr 2 £M**	**BAU Variance Movement from Qtr 2 £M**
Cultural Services	0.09 A	0.10 A	0.01 F
Grants to Voluntary Organisations	0.08 F	0.08 F	0.00
Private Sector Housing	0.08 F	0.00	0.08 F
Social Fund	0.15 F	0.00	0.15 F
Stronger Communities	0.08 F	0.14 F	0.06 A
Total	**0.30 F**	**0.12 F**	**0.18 F**

There were no SIGNIFICANT business as usual movements between quarter 2 and quarter 3 for the Portfolio.

A summary of the Portfolio COVID-19 forecast variance and movement since Quarter 2 is shown in the table below:

Service Area	**COVID Forecast Variance Qtr 3 £M**	**COVID Forecast Variance Qtr 2 £M**	**COVID Variance Movement from Qtr 2 £M**
Private Sector Housing	0.10 A	0.06 A	0.04 A
Cultural Services	0.05 F	0.03 F	0.02 F
Total	**0.05 A**	**0.03 F**	**0.02 A**

There were no SIGNFICANT COVID-19 variance movements between Quarter 2 and Quarter 3 for the Portfolio.

3. CUSTOMER SERVICE & TRANSFORMATION PORTFOLIO

KEY REVENUE ISSUES – QUARTER 3 2021/22

The Portfolio is currently forecast to have a deficit of **£0.29M** for business as usual (BAU) activities, which represents a percentage variance against budget of 0.01%**.** The Portfolio forecast variance has moved favourably by **£0.65M** from the position reported at quarter 2.

In addition, there is a **£0.03M** deficit on the COVID-19 pandemic budget, a favourable movement of £0.18M from the position reported at quarter 2.

	Forecast Variance Qtr 3 £M	Forecast Variance Qtr 2 £M	Movement from Qtr 2 £M	% of budget
Portfolio Outturn business as usual	0.29 A	0.94 A	0.65 F	**0.01**
COVID-19 Pandemic	0.03 A	0.21 A	0.18 F	
Total	**0.32 A**	**1.15 A**	**0.83 F**	

A summary of the Portfolio business as usual forecast variance and movement since quarter 2 is shown in the table below:

Service Area	BAU Forecast Variance Qtr 3 £M	BAU Forecast Variance Qtr 2 £M	BAU Variance Movement from Qtr 2 £M
Business Support	0.25 A	0.25 A	0.00
City Services – Commercial Services	0.15 A	0.10 A	0.05 A
City Services – District Teams	0.24 A	0.23 A	0.01 A
City Services – Trees & Oncology	0.15 A	0.00	0.15 A
City Services – Waste Operations	0.64 F	0.28 A	0.92 F
Customer Services	0.33 F	0.00	0.33 F
Green City & Place Trading	0.34 F	0.24 F	0.10 F
IT Services	0.44 A	0.30 A	0.14 A
Supplier Management	0.51 A	0.18 A	0.33 A

Registration of Electors & Elections Costs	0.12 F	0.13 F	0.01 A
Other	0.02 F	0.03 F	0.01 A
Total	**0.29 A**	**0.94 A**	**0.65 F**

The SIGNIFICANT business as usual movements between quarter 2 and quarter 3 for the Portfolio are:

Service Area	Movement in BAU Forecast Variance Between Qtr 2 and Qtr 3 £M	Explanation:
City Services – Waste Operations	0.92 F	The favourable movement is primarily made up of reduced forecasts on staffing of £0.54M and fleet costs of £0.40M. There are a number of vacant positions in the service that were previously forecast to be recruited to before the end of the year. Due to the current restructure it is no longer expected that these positions will be filled this financial year. Agency and overtime costs are expected to remain at current forecast levels for the remainder of the year. Fleet forecasts have also been reduced based on a review of current vehicles and charges. There are also favourable movements on income including chargeable waste services and other income including Dry Mixed Recyclables totalling £0.10M. These are off-set by adverse movements on disposal costs and other supplies of £0.12M.
Customer Services	0.33 F	The favourable variance of £0.33M year to date is due to additional income £0.40M being received from Solent University for work on saliva testing whereby the work is being managed mainly within current resources. Some of this work has been undertaken by staff funded by the SCC structure, maximising the income further.
Supplier Management	0.33 A	Following a recent service review of throughput of electricity and associated budgets from supplier industry data, it has been highlighted that electricity inflation costs including On Street Lighting have increased significantly, causing a forecast £0.51M pressure for this financial year, a movement of £0.33M.

A summary of the Portfolio COVID-19 forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**COVID Forecast Variance Qtr 3 £M**	**COVID Forecast Variance Qtr 2 £M**	**COVID Variance Movement from Qtr 2 £M**
IT Services	0.06 A	0.17 A	0.11 F
City Services – Commercial Services	0.06 F	0.00	0.06 F
City Services – District Teams	0.07 A	0.07 A	0.00
City Services – Waste Operations	0.04 F	0.03 F	0.01 F
Total	**0.03 A**	**0.21 A**	**0.18 F**

There are no SIGNFICANT COVID-19 variance movements between quarter 2 and quarter 3 for the Portfolio.

4. EDUCATION PORTFOLIO

KEY REVENUE ISSUES – QUARTER 3 2021/22

The Portfolio is currently forecast to have a deficit of **£1.60M** for business as usual (BAU) activities, which represents a percentage deficit against budget of 14.9**%.** The Portfolio forecast variance has moved adversely by **£1.56M** from the position reported at quarter 2.

In addition, there is a **£0.02M** deficit on the COVID-19 pandemic budget, no change from the position reported at quarter 2.

	Forecast Variance Qtr 3 £M	**Forecast Variance Qtr 2 £M**	**Movement from Qtr 2 £M**	**% of budget**
Portfolio Outturn business as usual	**1.60 A**	**0.04 A**	**1.56 A**	**14.9**
COVID-19 Pandemic	**0.02 A**	**0.02 A**	**0.00**	
Total	**1.62 A**	**0.06 A**	**1.56 A**	

A summary of the Portfolio business as usual forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**BAU Forecast Variance Qtr 3 £M**	**BAU Forecast Variance Qtr 2 £M**	**BAU Variance Movement from Qtr 2 £M**
Education - Early Years and Asset Mgt	0.04 A	0.04 A	0.00
Education - High Needs and Schools	1.56 A	0.00	1.56 A
Total	**1.60 A**	**0.04 A**	**1.56 A**

The SIGNIFICANT business as usual movements between quarter 2 and quarter 3 for the Portfolio are:

Service Area	Movement in BAU Forecast Variance Between Qtr 2 and Qtr 3 £M	Explanation:
Education - High Needs and Schools	1.56 A	Following the leadership transformation the Disability JIGSAW service has transferred to the Education portfolio from the Looked After Children service area in the Children Social Care portfolio to match the revised management structure. The adverse variance of £1.56M relates to the Disability JIGSAW service where there have been new residential cases and increases in current case costs, as well as unfunded service critical posts that are being corrected as part of the Destination 22 restructure. The forecast adverse variance for this service reported at Quarter 2 against Looked After Children was £1.31M. The increased forecast spend largely relates to an additional high cost case placement. The Children's Services restructure as well as early intervention plans are currently being implemented to reduce this increasing placement spend.

A summary of the Portfolio COVID-19 forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**COVID Forecast Variance Qtr 3 £M**	**COVID Forecast Variance Qtr 2 £M**	**COVID Variance Movement from Qtr 2 £M**
Education - High Needs and Schools	0.02 A	0.02 A	0.00
Total	**0.02 A**	**0.02 A**	**0.00**

There are no SIGNFICANT COVID-19 variance movements between quarter 3 and quarter 2 for the Portfolio.

Dedicated Schools Grant (DSG) Note:

	£M
Balance brought forward from 2020/21	8.93
High Needs Pressures 2021/22	(0.23)
High Needs - Pupils with an EHC	1.00
Covid-19 Pressures	0.15
Deficit (Cumulative)	9.85

The Forecast outturn for the Dedicated Schools Grant (DSG) is an £9.85M cumulative deficit which includes £0.15M for Covid-19 related pressures. The DSG Grant is ring-fenced and the deficit will not impact on the General Fund and non-school services the council provides.

This deficit is being driven by significant annual increases in numbers and complexity of Education Health Care Plans (EHCPs). The variance includes a cumulative DSG deficit of £8.93M brought forward from 2020/21.

Pressures on the High Needs services is a nationally recognised issue with significant pressures reported in most local authorities. Southampton's deficit is average. The DfE are undertaking a SEN review which should report in the Summer of 2022.

High Needs funding will increase by about 11% in 2022-23 to £37M. The SEN team have an ongoing strategic review of the High Needs activity to manage demand for SEND services. In particular they have increased places in special schools for September 2021 by 60.

5. ENVIRONMENT PORTFOLIO

KEY REVENUE ISSUES – QUARTER 3 2021/22

The Portfolio is currently forecast to have a surplus of **£0.07M** for business as usual (BAU) activities, which represents a percentage variance against budget of 4.5**%.** The Portfolio forecast variance has moved adversely by **£0.05M** from the position reported at quarter 2.

In addition, there is a **£0.12M** deficit on the COVID-19 pandemic budget, an adverse movement of **£0.09M** from the position reported at quarter 2.

	Forecast Variance Qtr 3 £M	**Forecast Variance Qtr 2 £M**	**Movement from Qtr 2 £M**	**% of budget**
Portfolio Outturn business as usual	**0.07 F**	**0.12 F**	**0.05 A**	**4.5%**
COVID-19 Pandemic	**0.12 A**	**0.03 A**	**0.09 A**	
Total	**0.05 A**	**0.09 F**	**0.14 A**	

A summary of the Portfolio business as usual forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**BAU Forecast Variance Qtr 3 £M**	**BAU Forecast Variance Qtr 2 £M**	**BAU Variance Movement from Qtr 2 £M**
Bereavement Services	0.02 A	0.02 A	0.00
Port Health & Trading Standards	0.09 F	0.16 F	0.07 A
Registration Services	0.02 A	0.04 A	0.02 F
Other	0.02 F	0.02 F	0.00
Total	**0.07 F**	**0.12 F**	**0.05 A**

There are no SIGNIFICANT business as usual movements between quarter 2 and quarter 3 for the Portfolio.

A summary of the Portfolio COVID-19 forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**COVID Forecast Variance** **Qtr 3 £M**	**COVID Forecast Variance** **Qtr 2 £M**	**COVID Variance Movement from Qtr 2 £M**
Bereavement Services	0.19 A	0.10 A	0.09 A
Registration	0.09 F	0.08 F	0.01 F
Other	0.02 A	0.00	0.02 A
Total	**0.12 A**	**0.03 A**	**0.09 A**

There are no SIGNFICANT COVID-19 variance movements between quarter 2 and quarter 3 for the Portfolio.

6. FINANCE & CAPITAL ASSETS PORTFOLIO

KEY REVENUE ISSUES – QUARTER 3 2021/22

The Portfolio is currently forecast to have a surplus of **£0.13M** for business as usual (BAU) activities, which represents a percentage movement against budget of 9.4**%.** The Portfolio forecast variance has moved favourably by **£0.19M** from the position reported at quarter 2.

In addition, there is a **£0.90M** deficit on the COVID-19 pandemic budget, a favourable movement of **£0.16M** from the position reported at quarter 2.

	Forecast Variance Qtr 3 £M	**Forecast Variance Qtr 2 £M**	**Movement from Qtr 2 £M**	**% of budget**
Portfolio Outturn business as usual	**0.13 F**	**0.06 A**	**0.19 F**	9.4%
COVID-19 Pandemic	**0.90 A**	**1.06 A**	**0.16 F**	
Total	**0.77 A**	**1.12 A**	**0.35 F**	

A summary of the Portfolio business as usual forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**BAU Forecast Variance Qtr 3 £M**	**BAU Forecast Variance Qtr 2 £M**	**BAU Variance Movement from Qtr 2 £M**
Accounts Receivable	0.04 F	0.00	0.04 F
Leisure Client	0.04 F	0.09 A	0.13 F
Property Portfolio Management	0.00	0.06 A	0.06 F
Risk Management	0.05 F	0.00	0.05 F
Other	0.00	0.09 F	0.09 A
Total	**0.13 F**	**0.06 A**	**0.19 F**

There are no SIGNIFICANT business as usual movements between quarter 2 and quarter 3 for the Portfolio.

A summary of the Portfolio COVID-19 forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**COVID Forecast Variance Qtr 3 £M**	**COVID Forecast Variance Qtr 2 £M**	**COVID Variance Movement from Qtr 2 £M**
Local Taxation & Benefits Service	0.95 A	0.95 A	0.00
Other	0.05 F	0.11 A	0.16 F
Total	**0.90 F**	**1.06 A**	**0.16 F**

There are no SIGNIFICANT COVID-19 movements between quarter 2 and quarter 3 for the Portfolio.

7. GROWTH PORTFOLIO

KEY REVENUE ISSUES – QUARTER 3 2021/22

The Portfolio is currently forecast to have a surplus of **£1.00M** for business as usual (BAU) activities, which represents a percentage variance against budget of 14.4**%.** The Portfolio forecast variance has moved adversely by **£0.08M** from the position reported at quarter 2.

In addition, there is a **£1.37M** deficit on the COVID-19 pandemic budget, an adverse movement of **£0.60M** from the position reported at quarter 2.

	Forecast Variance **Qtr 3** **£M**	**Forecast Variance** **Qtr 2** **£M**	**Movement from** **Qtr 2** **£M**	**% of budget**
Portfolio Outturn business as usual	**1.00 F**	**1.08 F**	**0.08 A**	**14.4**
COVID-19 Pandemic	**1.37 A**	**0.77 A**	**0.60 A**	
Total	**0.37 A**	**0.31 F**	**0.68 A**	

A summary of the Portfolio business as usual forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**BAU Forecast Variance** **Qtr 3** **£M**	**BAU Forecast Variance** **Qtr 2** **£M**	**BAU Variance Movement from** **Qtr 2** **£M**
Central Repairs & Maintenance	0.62 F	0.62 F	0.00
Parking & Itchen Bridge	0.06 F	0.06 F	0.00
Skills	0.10 F	0.10 F	0.00
Sustainability	0.09 F	0.10 F	0.01 A
Transportation	0.01 F	0.22 F	0.21 A
Flood Risk Management	0.18 F	0.02 F	0.16 F
Others	0.06 A	0.04 A	0.02 A
Total	**1.00 F**	**1.08 F**	**0.08 A**

The SIGNIFICANT business as usual movements between quarter 2 and quarter 3 for the Portfolio are:

Service Area	Movement in BAU Forecast Variance Between Qtr 2 and Qtr 3 £M	Explanation
Transportation	0.21 A	The movement in the forecast of £0.21M adverse represents the recognition of salary pressures within the service. Further work is being carried out to mitigate this pressure before the end of the financial year.

A summary of the Portfolio COVID-19 forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**COVID Forecast Variance Qtr 3 £M**	**COVID Forecast Variance Qtr 2 £M**	**COVID Variance Movement from Qtr 2 £M**
Parking & Itchen Bridge	0.85 A	0.45 A	0.40 A
Planning	0.30 A	0.10 A	0.20 A
Economic Development	0.05 A	0.05 A	0.00
Transportation	0.17 A	0.17 A	0.00
Total	**1.37 A**	**0.77 A**	**0.60 A**

The SIGNIFICANT COVID-19 variance movements between quarter 2 and quarter 3 for the Portfolio are:

Service Area	Movement in COVID Forecast Variance Between Qtr 2 and Qtr 3 £M	Explanation
Parking & Itchen Bridge	0.40 A	The adverse movement relates to the continuing impact of the pandemic on Off Street Parking and the Itchen Bridge. The original expectation was that metered income would rise to 80% of pre covid levels by Quarter 3, but has stabilised at approximately 75% of pre covid levels. Additionally, the forecast included an expectation that season ticket income would increase after September commensurate with a gradual return to office working (although not to pre covid levels). However, there has been no growth in season ticket income since September.
Planning	0.20 A	Income from major scheme planning applications is lower than budget. These are usually small in number but high in value so even a small reduction can materially impact the overall position. There are likely to be a few major applications before the end of March but they are not expected to enable the full budgeted amounts to be reached.

8. HEALTH & ADULT SOCIAL CARE PORTFOLIO

KEY REVENUE ISSUES – QUARTER 3 2021/22

The Portfolio is currently forecast to have a deficit of **£1.09M** for business as usual (BAU) activities, which represents a percentage variance against budget of **1.3%**. The Portfolio forecast variance has moved favourably by **£0.37M** from the position reported at quarter 2.

In addition, there is a **£0.02M** deficit relating to the COVID-19 pandemic, with no movement from the position reported at quarter 2.

	Forecast Variance Qtr 3 £M	**Forecast Variance Qtr 2 £M**	**Movement from Qtr 2 £M**	**% of budget**
Portfolio Outturn business as usual	**1.09 A**	**1.46 A**	**0.37 F**	**1.3**
COVID-19 Pandemic	**0.02 A**	**0.02 A**	**0.00**	
Total	**1.11 A**	**1.48 A**	**0.37 F**	**1.3**

A summary of the Portfolio business as usual forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**BAU Forecast Variance Qtr 3 £M**	**BAU Forecast Variance Qtr 2 £M**	**BAU Variance Movement from Qtr 2 £M**
Adults – Adult Services Management	0.11 A	0.12 A	0.01 F
Adults – Long Term	1.06 A	0.75 A	0.31 A
Adults – Provider Services	0.18 A	0.18 A	0.00
Adults - Reablement & Hospital Discharge	0.39 A	0.01 F	0.40 A
Adults – Safeguarding Adult Mental Health & Out of Hours	0.33 A	0.31 A	0.02 A
ICU – Provider Relationships	0.36 F	0.00	0.36 F
ICU – System Redesign	0.14 F	0.11 A	0.25 F
Public Health – Non-ringfenced	0.48 F	0.00	0.48 F
Total	**1.09 A**	**1.46 A**	**0.37 F**

The SIGNIFICANT business as usual movements between quarter 2 and quarter 3 for the Portfolio are:

Service Area	Movement in BAU Forecast Variance Between Qtr 2 and Qtr 3 £M	Explanation
Adults – Long Term	0.31 A	At quarter 3 there has been a £0.31M adverse movement since quarter 2 mainly due to: • A £0.45M adverse variance relating to an increase in older people and physical disability residential care package costs due to increased numbers of clients and complexity of care. • A £0.08M favourable variance relating to learning disability client costs due to increased numbers of clients and complexity of care. • A £0.06M favourable variance due to a release of Contain Outbreak Management Funding (COMF) to cover the cost of Care in this area.
Adults - Reablement & Hospital Discharge	0.40 A	As at quarter 3 there is an overall £0.40M adverse movement partly due to a review of the hospital discharge process and the costs incurred as a consequence. This amounts to a £0.56M adverse variance. Further discussions are taking place to review this position and ascertain a further course of action. These costs are partially offset by a £0.08M release of COMF funding and a £0.05M release of Infection Control, Workforce Recruitment & Retention Fund, and Rapid Testing Grant allocations to the Urgent Response Service.
ICU – Provider Relationships	0.36 F	As at quarter 3 there is an overall £0.36M favourable movement partly due to a release of funding from the Public Health Grant for services relating to Public Health and a £0.05M movement relating to additional staff savings.
ICU – System Redesign	0.25 F	As at quarter 3 there is a £0.25M favourable movement mainly due to a £0.14M release of funding from the Public Health grant for services relating to Public Health and a £0.09M favourable variance relating to under usage bed nights at external respite provision for the current financial year
Public Health – Non-ringfenced	0.48 F	There is a favourable movement as at quarter 3 which relates to additional grant funding from the Contain the Outbreak Management Fund (COMF), which is paying for support relating to the Covid Pandemic across the authority.

A summary of the Portfolio COVID-19 forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**COVID Forecast Variance** **Qtr 3** **£M**	**COVID Forecast Variance** **Qtr 2** **£M**	**COVID Variance Movement from Qtr 2** **£M**
Adults - Adult Services Management	0.02 A	0.02 A	0.00
Total	**0.02 A**	**0.02 A**	**0.00**

There are no SIGNFICANT COVID-19 variance movements between quarter 2 and quarter 3 for the Portfolio.

9. LEADER PORTFOLIO

KEY REVENUE ISSUES – QUARTER 3 2021/22

The Portfolio is currently forecast to have a surplus of **£0.05M** for business as usual (BAU) activities, which represents a percentage surplus against budget of 0.01**%.** The Portfolio forecast variance has moved favourably by **£0.04M** from the position reported at quarter 2.

In addition, there is a **£0.03M** deficit on the COVID-19 pandemic budget, with no movement from the position reported at quarter 2.

	Forecast Variance Qtr 3 £M	**Forecast Variance Qtr 2 £M**	**Movement from Qtr 2 £M**	**% of budget**
Portfolio Outturn business as usual	0.05 F	0.01 F	0.04 F	0.01
COVID-19 Pandemic	0.03 A	0.03 A	0.00	
Total	**0.02 F**	**0.02 A**	**0.04 F**	

A summary of the Portfolio business as usual forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**BAU Forecast Variance Qtr 3 £M**	**BAU Forecast Variance Qtr 2 £M**	**BAU Variance Movement from Qtr 2 £M**
Corporate Communications	0.00	0.00	0.00
HR Services	0.05 F	0.01 F	0.04 F
Licensing	0.00	0.00	0.00
Strategic Management of the Council	0.00	0.00	0.00
Total	**0.05 F**	**0.01 F**	**0.04 F**

The are no SIGNFICANT BAU variance movements between quarter 2 and quarter 3 for the Portfolio.

A summary of the Portfolio COVID-19 forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**COVID Forecast Variance Qtr 3 £M**	**COVID Forecast Variance Qtr 2 £M**	**COVID Variance Movement from Qtr 2 £M**
Licensing	0.03 A	0.03 A	0.00
Total	**0.03 A**	**0.03 A**	**0.00**

The are no SIGNFICANT COVID-19 variance movements between quarter 2 and quarter 3 for the Portfolio.

10. NON-PORTFOLIO EXPENDITURE & INCOME

KEY REVENUE ISSUES – QUARTER 3 2021/22

Non-Portfolio budgets are forecast to have a surplus of **£0.27M** for business as usual (BAU) activities. This is a favourable movement of **£0.27M** from the position reported at quarter 2. In addition, there is a **£1.51M** surplus on the COVID-19 pandemic budget, a favourable movement of **£0.01M** from the position reported at quarter 2.

	Forecast Variance Qtr 3 £M	**Forecast Variance Qtr 2 £M**	**Movement from Qtr 2 £M**	**% of budget**
Business as usual	**0.27 F**	**0.00**	**0.27 F**	**N/A**
COVID-19 Pandemic	**1.51 F**	**1.50 F**	**0.01 F**	
Total	**1.78 F**	**1.50 F**	**0.28 F**	

A summary of the Non-Portfolio business as usual forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**BAU Forecast Variance Qtr 3 £M**	**BAU Forecast Variance Qtr 2 £M**	**BAU Variance Movement from Qtr 2 £M**
Capital Asset Management	0.60 F	0.00	0.60 F
Other Expenditure & Income	0.60 A	0.00	0.60 A
Non-Specific Government Grants & Other Funding	0.27 F	0.00	0.27 F
Total	**0.27 F**	**0.00**	**0.27 F**

The SIGNIFICANT business as usual issues are:

Service Area	Movement in BAU Forecast Variance Between Qtr 2 and Qtr 3 £M	Explanation
Capital Asset Management	0.60 F	A surplus is expected for capital financing due to rephasing and changes to the capital programme.
Other Expenditure & Income	0.60 A	The capital financing surplus for 2021/22 is being carried forward via reserves into 2022/23 to help meet budget pressures.
Non-Specific Government Grants & Other Funding	0.27 F	Grant allocations for housing benefit and council tax support administration and legacy funding for the Independent Living Fund are higher than budgeted for.

A summary of the Portfolio COVID-19 forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**COVID Forecast Variance Qtr 3 £M**	**COVID Forecast Variance Qtr 2 £M**	**COVID Variance Movement from Qtr 2 £M**
Non-Specific Government Grants & Other Funding	1.51 F	1.50 F	0.01 F
Total	**1.51 F**	**1.50 F**	**0.01 F**

The are no SIGNFICANT COVID-19 variance movements between quarter 2 and quarter 3.

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Year	Grant	General Grant support for COVID-19 £M	Specific grant i.e. to support individual service or initiative £M	SCC to administer and allocate to third party £M	Total £M
21/22	Fees and charges losses compensation tranche 3	2.33			**2.33**
	LA Support tranche 5	7.82			**7.82**
	Local Council Tax support schemes grant	2.82			**2.82**
	Adult Social Care – Omicron Support Fund		0.28		**0.28**
	Adult Social Care infection control & Rapid Testing fund Jul - Sept 21		0.98		**0.98**
	Adult Social Care infection control & Testing fund Oct - Mar		1.50		**1.50**
	Adult Social Care infection Prevention and Control		0.79		**0.79**
	Community Vaccine champions		0.49		**0.49**
	Contain Outbreak Management 2021/22		2.02		**2.02**
	COVID Winter Grant Scheme 1st April - 16th April		0.31		**0.31**
	Culture Recovery Fund		0.27		**0.27**
	Holiday Activities and food programme 21/22		1.08		**1.08**
	Home to school transport - Additional Top-up Funding for Spring second half term		0.02		**0.02**
	Home to school transport - Tranche 5 Allocation (Summer first half term)		0.25		**0.25**
	Home to school transport - Tranche 6 Initial Allocation(Summer second half term)		0.05		**0.05**
	Homelessness Prevention Grant – Winter 2021 COVID-19 rent arrears financial support		0.27		**0.27**
	Household Support Fund		2.22		**2.22**
	Local Support Grant (Formerly Winter Support grant) 17 Apr - 20 Jun		0.20		**0.20**
	Local Support Grant (Formerly Winter Support grant) 21 June - 30 Sept		0.86		**0.86**
	New Burdens 4 Restart and the Additional Restrictions COVID-19 Grant Schemes		0.13		**0.13**
	New Burdens 5 Post Payment Assurance, Reconciliation and Debt Recovery		0.04		**0.04**
	New Burdens for Local restriction, Christmas Support & closed business grants. Aug 20 - Mar 21		0.29		**0.29**
	NHS and social care for COVID-19 response and recovery - ASC rapid testing		0.59		**0.59**
	Protect and Vaccinate for Rough Sleepers		0.16		**0.16**
	Rough Sleeping initiative		1.43		**1.43**
	Schools recovery premium LA maint schools academic yr 21/22		0.87		**0.87**
	Self Isolation Practical Support April 2021		0.07		**0.07**
	Self Isolation Practical Support July 2021		0.08		**0.08**
	Self Isolation Practical Support June 2021		0.07		**0.07**
	Self Isolation Practical Support November 2021		0.04		**0.04**
	Self Isolation Practical Support October 2021		0.04		**0.04**
	Self isolation Practical Support August & Sept 2021		0.16		**0.16**
	Self Isolation Practical Support May 2021		0.07		**0.07**
	Targeted Community testing July & August		0.03		**0.03**
	Targeted Community testing September		0.02		**0.02**
	Test and Trace Support Payment Scheme April		0.02		**0.02**
	Test and Trace Support Payment Scheme March & April		0.30		**0.30**
	Test and Trace Support Payment Scheme May, June & July		0.37		**0.37**
	Welcome Back Fund		0.29		**0.29**
	Workforce recruitment and retention fund		0.75		**0.75**
	Workforce Recruitment and Retention Fund for adult social care, round 2		1.39		**1.39**
	Additional Restrictions Grant			1.56	**1.56**
	Additional Restrictions Grant (ARG) for the period 30 December 2021 to 31 March 2022			0.37	**0.37**
	COVID-19 Additional Relief Fund (CARF)			9.06	**9.06**
	Omicron Hospitality and Leisure Grant			2.16	**2.16**
	Restart grant 1st April - 31st July			12.66	**12.66**
21/22 Total		**12.96**	**18.80**	**25.81**	**57.57**
22/23	Holiday Activities and Food programme 2022		1.21		**1.21**
22/23 Total		**-**	**1.21**	**-**	**1.21**
Grand Total		**12.96**	**20.00**	**25.81**	**58.78**

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Treasury Management

Appendix 4

Borrowing and Investments

1. The table below shows the year's opening balance of borrowing and investments, current levels and those predicted for year-end. Forecast borrowing is currently based on month 9 capital monitoring and will be subject to review during the year.

Lower official interest rates have continued to lower the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Authority maintained its strategy of keeping borrowing and investments below their underlying levels in order to reduce risk and make a net saving.

2.

	31-Mar-21 Actual £M	31-Mar-21 Average %	31-Dec-21 Actual £M	31-Dec-21 Average %	31-Mar-22 Forecast £M	31-Mar-22 Forecast %
Long Term Borrowing						
Public Works Loan	222.59	2.72	249.84	2.74	344.49	2.75
LOBO Loans from Banks	9.00	4.86	9.00	4.86	9.00	4.86
	231.59	**2.75**	**258.84**	**2.88**	**353.49**	**2.82**
Short Term Borrowing						
Other Local Authorities	10.00	0.28	0.00	0.00	10.00	0.04
Other	0.36	0.28	0.36	0.33	0.36	0.00
Total External Borrowing	**241.95**	**2.75**	**259.20**	**2.82**	**363.85**	**2.78**
Other Long Term Liabilities						
PFI Schemes	50.97	9.16	49.25	8.82	47.52	9.65
Deferred Debt Charges (HCC)	13.47	2.13	13.29	2.61	13.10	2.09
Total Gross External Debt	**306.39**	**3.78**	**321.73**	**4.08**	**424.47**	**3.81**
Investments:						
Managed In-House						
Government & Local Authority	0.00	0.00	(31.46)	0.05		
Cash (Instant access)	(30.13)	0.01	(43.84)	0.05	(10.00)	0.01
Cash (Notice Account)	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Bonds	(3.17)	5.30	(1.06)	5.27	(1.10)	5.27
Managed Externally						
Pooled Funds (CCLA) & Shares	(27.00)	4.16	(27.00)	3.54	(27.00)	3.00
Total Investments	**(60.30)**	**4.26**	**(103.36)**	**2.68**	**(38.10)**	**2.28**
Net Debt	**246.09**		**218.37**		**386.37**	

3. After taking into account maturing and new debt requirements in year and a forecast reduction in investment balances, net borrowing is expected to increase by £140.28M for the year.

This will change throughout the year as capital plans firm up and actual cash flow are known and will be reported at the next quarter.

4. The interest cost of financing the council's long term and short term loan debt is charged to the general fund revenue account and is detailed below together with a summary of performance to date.

Borrowing

5. The forecast cost of financing the council's loan debt is £15.21M of which £4.90M relates to the HRA, however this will be subject to movement as the need for further borrowing for the remainder of the year becomes more certain.

6. Short term interest rates have remained low and are likely to do so for the remainder of the year and offer good value, which we will utilise to fund any further borrowing needs in the year, unless an opportunity arises to secure a long term loan at advantageous rates or to provide certainty for the portfolio.

Although we currently do not have any short term debt, we anticipate borrowing before year end to replace maturing long term debt, expected reduction in reserves and to fund the forecast capital programme for the year, until a decision is taken with regards to long term borrowing. Any increase in short term borrowing costs will be offset by a reduction in long term costs. This is later than previously reported as cash flows have remained higher than expected.

7. The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

8. During the year 3 loans have been taken from the PWLB; these have been in respect of the HRA for unfinanced debt as the 31 March 2021 as part of the HRA 40 year business plan. Rates have been monitored during the year and timing of loans has been taken in consultation of our advisors to secure rates when rates have dipped in the year. Details are shown below:

Long Term Loans	**Amount £M**	**Rate %**	**Period (Years)**
PWLB EIP Loan 1	11.00	1.45%	20
PWLB EIP Loan 2	11.00	1.44%	20
PWLB Maturity Loan 1	11.00	1.50%	40
Total Borrowing	**33.00**		

Investment

9. The Authority received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes which was temporarily invested in short-dated, liquid instruments such as call accounts and Money Market Funds and led to higher than expected cash flow whilst the cash was being disbursed. Investment balances have ranged between £122.96M and £43.02M during the year and are currently £103.36M but are expected to reduce to £38M by year end.

Continued downward pressure on short-dated cash means net returns on money market funds are low between 0.08% and zero even after some managers have temporarily lowered their fees. This supports our decision to only borrow for cash flow purposes at this stage as savings on borrowing costs more than offset the loss on short term investments.

Following the increase in the base rate to 0.25% in December interest rates on short term investments are expected to rise during the next quarter.

The impact of COVID-19 will continue during the year and will be reported at each quarter and as part of Treasury Reports to Governance Committee.

External Managed investments

10. The council has invested £27M in property funds as an alternative to buying property directly. As previously reported these funds offer the potential for enhanced returns over the longer term but may be more volatile in the shorter term and are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments.

11. Because these funds have no defined maturity date but are usually available for withdrawal after a notice period (90 days), their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed.

12. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In light of their performance over the long-term and the Authority's latest cash flow forecasts, investment in these funds has been maintained.

13. The market has continued to improve since year end when the value was reported at and at £26.28M and at December 2021 has a value of £29.53M (September 2021, £28.11M) an increase of £3.25M since March and is now £2.53M above the initial investment of £27M.

The dividend for April to December has been estimated at £0.26M, 3.78% against the original investment. This is lower than 2020/21 which was boosted by a significant level of one-off receipts. If rates remain at this level the total forecast dividend for the year is £1.03M.

Financial Review and Outlook

14. A summary of the external factors, which sets the background for Treasury, as provided by the council's treasury advisors, Arlingclose Ltd, is summarised below. The low for longer interest rate outlook theme that has been at the core of the recommended strategic advice for over a decade remains.

Arlingclose's Economic Outlook for the remainder of 2021/22 (based on the December 2021 interest rate forecast)

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

15. The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, for December 2021 is detailed below and is based on the following Underlying Assumptions:

	• The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks. • Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated. • The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure. • These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated. • The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 and Q1 activity could be weak at best. • Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall. • The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.
16.	Arlingclose expects Bank Rate to rise again in Q1 2022, they believe the MPC will want to build on the strong message it delivered in December month by tightening policy despite Omicron uncertainty. Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve. Gilt yields are expected to remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels. Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations. The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside. The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.

	Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment.
	Credit background
17.	Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.
18.	The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.
19.	The ongoing vaccine rollout programme is credit positive for the financial services sector in general but there remains uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, but the sector is in a generally better position now compared to earlier this year and 2020. At the end of the period Arlingclose had completed its full review of its credit advice on unsecured deposits for UK and non-UK institutions whereby the maximum duration for all recommended counterparties were extended to 100 days. As ever, the institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review.
	Investment Performance
20.	The council's advisors undertake quarterly investment benchmarking across its client base. As reported previously our portfolio was more diversified and at higher interest rates than the average as a result of moving into the bond programme earlier than most clients, but there is now more competition for bonds from both government bodies and other local authorities, so opportunities to replace maturing bonds are limited and we will see a fall in suitable instruments. With this in mind, and following discussions with our advisors, it was decided to move more into property funds, which are a longer term investment, and to short term investments for cash flow purposes.
21.	Our current investments in bonds has reduced from £3M to £1M following maturities in 2021/22 and we maintained the property funds at £27M, with all other cash being placed in short term deposits as shown in paragraph 2.
22.	As detailed in paragraph 11 our cash balances have continued to be higher than forecast. As a result, we had £75.30M in short term investment which is above our normal working balances. Our target is to reduce this to a £10M working balance to reduce borrowing and therefore net interest costs but this will be dependent on actual capital spend and movement in balances.
23.	Investments managed internally are currently averaging a return of 0.12% which is slightly higher than the average unitary authority at 0.08% whilst maintaining a higher average credit rating at AA-. Total income returns at 1.20% is also higher than the average for both unitary

	(0.69%) and LA's (0.66%), this is primarily due to historic investment in EIB bonds which return 5.27%, although on a small balance of £1M, since maturities cannot be replaced at the same level. We hold 28% of our investments in strategic funds which offer higher return over the long term as detailed in paragraphs 11 to 14 above. This is higher than the average but in line with our strategy. In addition, due to the increase in the capital value of our external funds of +14.76% our total investment return at 5.32% is significantly higher than the average LA's at 1.95% and the average unitary at 2.46% across Arlingclose's client base, but as previously reported it is the income return that is the driver to invest plus, they are deemed less risky than buying individual properties and do not constitute capital spend.
	<u>Revision to CIPFA Codes</u>
24.	CIPFA published revised Prudential and Treasury Management Codes in December 2021. The Prudential Code takes immediate effect although detailed reporting requirements may be deferred until the 2023/24 financial year and not been included in this report whilst we are reviewing the impact of the proposed changes. There is no mention of the date of initial application of the TM Code.
25.	The accompanying guidance notes to the Codes including the treasury management prudential indicators have not yet been published. The main changes or expected changes from previous codes include: • Additional reporting requirements for the Capital Strategy. • For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the Authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services). • Forward looking prudential code indicators must be monitored and reported to members at least quarterly. • A new indicator for net income from commercial and service investments to net revenue stream. • Inclusion of the liability benchmark as a treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the authority's full debt maturity profile. • Excluding investment income from the definition of financing costs. • Credit and counterparty policies should set out the Authority's policy and practices relating to Environmental, Social and Governance (ESG) investment considerations. • Additional focus on the knowledge and skills of officers and elected members involved in decision making
26.	We are currently reviewing the impact of the proposed changes which could have an impact on us holding long term investments such as CCLA. Early indications are that future long term investments will be prohibited but we will not need to unwind existing investments. A further update will be included in future reports.

KEY FINANCIAL RISKS

The following table identifies the key financial risks to the council's financial position over the short to medium term together with a summary of the mitigating actions in place and planned. These financial risks are reflected in the assessment of the adequacy of estimates and reserves. The assessment of risk is based on the following risk scoring criteria:

LIKELIHOOD (Probability)		
5 - Very Likely	>95%	Is expected to occur in most circumstances
4 - Likely	↑	Will probably occur in most circumstances
3 - Possible	50%	Might occur at some time
2 - Unlikely	↓	Could occur at some time
1 - Very Unlikely	<5%	May only occur in exceptional circumstances

IMPACT	1 - Minor	2 - Moderate	3 - Significant	4 - Major	5 - Critical
Service delivery/ key priorities	No noticeable effects	Some temporary disruption to a single service area / delay in delivery of one of the council's	Regular disruption to one or more services / a number of corporate objectives would be delayed or not	Severe service disruption on a directorate level / many corporate priorities delayed or not delivered	Unable to deliver most priorities / statutory duties not delivered
Financial Impact	Loss or loss of income < £10k	Loss or loss of income £10k - £499k	Loss or loss or income £500k - £4.99m	Loss or loss of income £5m - £9.99m	Loss or loss of income > £10m
Reputation	Internal review	Internal scrutiny required to prevent escalation	Local media interest. Scrutiny by external committee or body	Intense public and media scrutiny	Public inquiry or adverse national media attention

- **Robustness of estimates**

	Key Financial Risk	INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FE1.	**Interest rates** are underestimated.	Likely	Major	• *PWLB rates reduced by 1% for all new standard rate borrowing and by 0.8% for certainty rate loans in Spending Review 2020. Rates were discounted by 1% for new HRA loans in March 2020 Budget.* • *Prudent estimates are made around future rates when costing the financing of the capital programme.* • *Market intelligence provided by Treasury Management advisors.* • *Treasury Management Strategy is aligned with CIPFA Code and DLUHC Guidance re investing funds prudently and having regard to the security and liquidity of its investments before seeking the highest rate of return.*	Possible	Significant
FE2.	**Existing fees and charges:** Projected levels of income within the period are not achieved and/or maintained.	Possible	Significant	• *Fees and charges have been reviewed as part of the business planning process. If there are 'in year' shortfalls these form part of the budget monitoring processes.* • *Loss of income from fees and charges is forecast due to the impact of COVID-19 restrictions. This has been mitigated by the Government scheme to fund 75p in every £1 lost over and above a 5% budget threshold for the first quarter of 2021/22 (continuation of the scheme in place for 2020/21). This does not apply to commercial activities.*	Possible	Significant
FE3.	**New income streams:** Projected levels of income within the period are not achieved.	Possible	Significant	• *Income generating activity has been identified as part of current approved savings proposals. There is a risk that in light of the economic backdrop and exit from the European Union that these levels of income will not be achieved.* • *Higher risk as it is based on new sources of income.* • *Implementation of new income generation proposals has been delayed due to the impact of COVID-19.*	Possible	Significant
FE4.	**Volatility of Business Rates funding** given the uncertainty around impact of successful appeals.	Likely	Major	• *The appeals provision has been reviewed and updated in light of known current appeals/challenges and potential threats and will be reviewed on a regular basis.* • *Appeals can be backdated and as a consequence of this the Council has set aside a provision to deal with this element of the financial impact.* • *The appeals window for the 2010 rating list has been closed.* • *Legislation has been enacted to prevent appeals as a consequence of measures to control COVID-19. Billing authorities have been allocated a share of a £1.5Bn COVID-19 Additional Relief Fund for 2021/22 to award discretionary relief to those business ineligible for existing support linked to business rates.*	Possible	Significant

- **Robustness of estimates**

	Key Financial Risk	INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FE5.	**Increase in demand led spending pressures** (including impact of Welfare Reform, social care, safeguarding) over and above the current budget provision.	Possible	Critical	*• Annual budget setting process developed in consultation with service managers* *• Monitoring of capital (quarterly) and revenue (monthly) budgets, reported to EMB and Cabinet (Quarterly).* *• Action plans to address any significant in year budget variances are agreed with EMB with the status of the agreed actions reported to EMB on a monthly basis* *• Action plans intended to manage/reduce the number of Looked After Children*	Possible	Major
FE6a.	Third party provider costs will increase as a result of the introduction of the **National Living Wage**	Very Likely	Significant	*• As each contract is procured any impact of this will need to be assessed and addressed to ensure services are procured within budget.*	Possible	Significant
FE6b.	**Third party provider costs increase** as result of SCC having to 'step in' in the event of potential provider failure (social care providers)	Unlikely	Significant	*• ICU contract monitoring arrangements and general market oversight and intelligence* *• The market has benefited from funding relating to additional COVID support from government*	Very Unlikely	Moderate
FE7.	**Legal challenge to savings proposals** that could result in the proposal being either discontinued or revised.	Possible	Significant	*• Robust budget consultation process in place.*	Unlikely	Moderate
FE8.	**Pressure on returns from investment properties** in both the short and longer term.	Possible	Major	*• There is a full and robust process around the financial and legal analysis of the individual investments.* *• Investments are diversified between sectors.* *• Expansion of the Property Investment Fund was removed in the 2021/22 budget agreed in February 2021*	Possible	Significant
FE9.	**Voluntary sector** is either unwilling or unable to support the delivery of certain services or activities	Possible	Major	*• Review the overall expectation and co-ordination of the services required of the voluntary sector.* *• Consideration is given to this risk in deciding whether to design services around the voluntary sector*	Possible	Significant
FE10.	The council's **service delivery partners** seek to exit an agreement or are no longer able to deliver the required service or the council seeks to reach an exit agreement.	Likely	Major	*• Central Contracts Team monitors and work closely with the council's significant service delivery partners.* *• Contractual obligations on both parties that set out the respective roles and responsibilities.*	Possible	Significant
FE11.	The Council may received reduced funding if Government make changes to the Local Government funding mechanism. Such changes may include removing the ring-fence for Public Health Grant and rolling it in to general funding.	Possible	Major	*• The Council will plan for any proposed changes through the Medium Term Financial Strategy process.*	Possible	Major

- **Adequacy of proposed financial reserves**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FR1.	**Business Rate Retention & Council Tax Growth -** the council fails to collect, retain and grow business rate income	Possible	Major	*• For the business rates multiplier, the assumption built into the MTFS is based on an annualised CPI Rate reflecting the uplift set by government. The government has frozen the business rate multiplier for 2021/22 adn 2022/23, however councils will be compensated for this via grants.* *• The MTFS includes assumptions on growth which have been reviewed in conjunction with the Growth service team and Business rate collection team, including pipeline developments and their assumed operational dates. This will be monitored on a frequent basis as part of the standard monitoring.* *• Reserves can be used to offset the impact of shortfalls in estimated business rates, giving time to adapt the budget and service planning.*	Possible	Significant
FR2.	**Delivery of all of the agreed savings** is not achieved.	Possible	Critical	*• Progress and delivery of the overall Programme and individual projects is monitored at Executive Director level, by EMB, with any non achievement forming part of the normal budget monitoring action plan process.* *• EMB review the validity and achievability of projects and provide approval (or not) to projects*	Possible	Major
FR3.	The Government could impose a lower **Council Tax referendum** threshold and/or reduce or remove the **Adult Social Care Precept**	Possible	Significant	*• The 2022/23 budget proposed by the Executive includes a freeze in both the 'core' Council Tax and Adult Social Care Precept. The MTFS assumes increases of 1.99% for 'core' Council Tax and no increase in the Adult Social Care Precept for future years.* *• The Adult Social Care Precept was introduced as part of the Autumn 2015 Spending Review and allowed local authorities with social care responsibilities to increase Council Tax provided it was ring-fenced to Adult Social Care budgets. In the 2022/23 Provisional Settlement the Government consulted on a further 1% Precept.* *• The option for a Social Care Precept has applied for a number of years and the Spending Review 2021 indicated a 1% flexibility is likely to apply for each year of the 3-year spending review.*	Unlikely	Significant
FR4.	**Slippage in capital receipts** (not accompanied by a slippage in spend).	Possible	Significant	*• Non-receipt of any planned income will require a permanent draw from reserves, additional borrowing or for savings to be found in the capital programme.* *• Impact reflects the cost of borrowing in short term (the interest payments).*	Possible	Moderate
FR5.	If **building inflation** was to exceed general inflation over a prolonged period, this would have a significant adverse impact on **HRA balances** and, in turn, the business model in respect of the redevelopment and refurbishment of the SCC Housing stock.	Possible	Major	*• Surpluses are liable to change annually, either favourably or not, and this will be reflected in the annual review of stock investment needs and estimated unit rates.* *• Monitoring and assessment of potential impact with business model sufficiently flexible to allow for reassessment of priority outcomes against available budget*	Possible	Significant
FR6.	The level of funds within the **internal insurance provisions** is inadequate to meet current or future demand	Possible	Significant	*• The adequacy of the provision is informed by the output from periodical (at least triennial) external actuarial reviews of the funds.* *• The level of funding required is reviewed as part of annual budget setting process and the position, in respect of potential liabilities is reviewed on a monthly basis.*	Unlikely	Significant

- **Adequacy of proposed financial reserves**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FR7.	**Ad hoc or unforeseen events / emergencies.**	Possible	Critical	*• The Council's Reserves may be utilised in respect of the financial impact of such an event. • Subject to the nature of the event alternative sources of funding might be available e.g. Bellwin Scheme. • The Government has allocated 5 tranches of un-ringfenced support funding to local authorities to meet COVID-19 pressures and provided funding to meet some fees and charges income losses and some irrecoverable tax losses, as well as providing some ring-fenced grant funding for specific measures e.g. testing and tracing. • Use of reserves may be required to meet COVID-19 expenditure pressures/income losses not funded by Government.*	Possible	Major
FR8.	The cost of implementing the **Care Act** 2014 is greater than anticipated.	Possible	Significant	*• The Government announced a new basis for Social Care provision on 7 September 2021, with a "cap and floor" scheme being implemented from October 2023 to be funded via a new Health and Social Care Levy. • No costing analysis has been provided so it is unclear whether the quantum of funding allocated at a national level will be sufficient to cover the costs of the scheme. There is also a risk that the method for distributing the funding will be unfavourable to the Council. • The 2022/23 Services Grant announced in the Provisional Local Government Finance Settlement provides funding to meet the Council's cost of the new Health and Social Care Levy (payable from April 2022), however this funding is only guaranteed for 1 year.*	Possible	Significant
FR9.	**CCG** could seek to reduce its level of contribution to the **'pooled budgeting '** arrangement with SCC	Possible	Major	*• Ongoing relationship and dialogue with CCG re shared objectives and outcomes.*	Unlikely	Significant
FR10.	The council is unable to quantify the financial impact on both vulnerable individuals and key council services arising from implementation **of welfare reforms**	Possible	Significant	*The impact of Welfare Reform on all service areas will be difficult to monitor or to mitigate against.*	Possible	Significant
FR11.	**Inflation increases** at a higher rate than anticipated	Possible	Significant	*• Assumptions have been made in the estimates about the likely level of general inflation that will apply in 2021/22. CPI is currently running at 5.4% (December 2021), well above the level that had been anticipated. • Market intelligence provided by Arlingclose - independent treasury advisors. • An amount is included in the MTFS to cover key elements of inflation. • Beyond this provision, it would be managed as an 'in year' issue and services would be expected to absorb the difference.*	Possible	Significant
FR12.	**Pay Inflation** is at a higher rate than anticipated	Possible	Significant	*• The MTFF model approved in February 2021 is based on a pay award of 0.5% for 2021/22, 1% for 2022/23 and 2023/24 and 2% for 2024/25 - this is based on the Government's announcement in the Spending Review 2020 to freeze pay for non-NHS public sector workers earning more than £24,000 a year • It should be noted that the current offer for 2021/22 is 1.75%, with 2.75% for lowest paid workers, however this has been rejected by the unions.*	Possible	Significant
FR13.	Exiting the European Union - Uncertainty and economic forces, at least in the short term, within both the local business and wider business sector may have an adverse impact on investment decisions and local employment which, in turn, would impact on business rate income.	Likely	Significant	*• National and local modelling in respect of the future approach to business rate retention will need to reflect changes in the financial environment. • There may be either pressure or incentives for non UK owned business to move operations back to within an EU country. • Treasury Management advisors are regularly updating the Council on the economic impact of exiting the European Union, the strength of the pound, inflation and interest rates.*	Likely	Significant

- **Adequacy of proposed financial reserves**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FR14.	There are unplanned and unforeseen consequences (and costs) arising from the implementation of new, or changed, systems and processes across service areas within the organisation	Possible	Significant	*• A Projects and Change Team has been established. A full programme management process is in place including planning and risk assessment, with significant support to major projects.*	Unlikely	Significant
FR15.	New accounting rules for financial investments may result in adverse valuation movements being charged to the General Fund in the year that they occur.	Possible	Significant	*• New accounting rules require gains/losses from valuation movements for certain types of financial investments to be recognised in the year they occur, rather than when the investments are sold. The Risk Reserve will be used to manage the volatility that the timing difference may cause.* *• The Government has put in place legislation to mitigate the impact on the General Fund for the five years 2018/19 to 2022/23.*	Unlikely	Significant
FR16.	COVID-19 will adversely impact on budgets	Very Likely	Critical	*• COVID-19 is having ongoing financial effects, as well as introducing significant uncertainty for future financial projects. Major income streams are likely to be impacted, such as council tax and business rates, as well as numerous service costs rising as demand increases e.g. for social care. The situation is being closely monitored each month, by the finance team and the impact captured. The Council included anticipated additional expenditure/income losses in the budget set in Feb 2021. The Government has provided un-ringfenced support funding for local authorities in 2021/22, as well as ring-fenced funding for specific COVID-19 expenditure, e.g. Test & Trace service, and some compensation for loss of fees & charges income.The MTFS will continue be used to model the potential effects and ensure the authority continues to plan ahead with robust estimates. Corporately, a further risk register is maintained for all COVID-19 related risks, including financial, which is monitored frequently*	Very Likely	Major

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FINANCIAL HEALTH INDICATORS – QTR 3 2021/22

Prudential Indicators Relating to Treasury

	Maximum	Forecast	Status
Maximum Level of External Debt £M	£805M	£445M	Green
As % of Authorised Limit	100%	55.28%	Green

	Maximum	Highest YTD	Status
Authorised Limit for external debt £M	£805M	£334M	Green
Operational Limit for external debt £M	£705M	£334M	Green
Maximum external borrowing year to date	£640M	£269M	Green
Limit of fixed interest debt %	100%	83.63%	Green
Limit of variable interest debt %	50%	16.37%	Green
Limit for Non-specified investments £M	£100M	£30M	Green

Other Treasury Performance Indicators	Target	Actual YTD	Status
Average % Rate Long Term New Borrowing	2.50%	1.69%	Green
Average % Rate Existing Long Term Borrowing	3.00%	2.89%	Green
Average Short Term Investment Rate - Cash	0.01%	0.05%	Green
Average Short Term Investment Rate – Fixed	0.01%	0.05%	Green
Average Long Term Investment Rate - Bonds	2.00%	5.27%	Green
Average Return on Property Fund	3.50%	3.78%	Green

Minimum Level of General Fund Balances

		Status
Minimum General Fund Balance	£10.1M	
Forecast Year End General Fund balance	£10.1M	Green

Income Collection

	2021/22 Target	Qtr3 YTD	Status
Collection rate	94.15%	102.79%	Green
Average days sales outstanding	< 60 days	62	Amber
Outstanding debt more than 12 months old	< 18%	21.99%	Red
Debt written off	< 2%	0.45%	Green

Creditor Payments

	2021/22 Target	Qtr3 YTD	Status
Valid and undisputed invoices paid within 30 days	95%	87.61%	Red

Tax Collection rate

	2020/21 Actual Rate	Target Collection Rate	Qtr 3 Collection Rate		Status
			Last Year	This Year	
Council Tax	92.90%	94.90%	78.53%	78.80%	Green
National Non Domestic Rates	93.89%	97.56%	79.91%	80.41%	Green

Appendix 7

HOUSING REVENUE ACCOUNT FORECAST OUTTURN POSITION FOR 2021/22

The Housing Revenue Account is currently forecast to have a surplus of **£0.92M** for business as usual (BAU) activities, which represents a percentage variance against budget of 1.2**%.** There has been no change to the overall Portfolio forecast variance from the position reported at quarter 2.

In addition, the surplus on the COVID-19 pandemic budget reported at Q2 has now been factored in to the BAU forecast, which represents an adverse movement from the position reported at quarter 2.

	Budget Qtr 3 £M	**BAU Annual Forecast Qtr 3 £M**	**BAU Forecast Variance Qtr 3 £M**	**BAU Forecast Variance Qtr 2 £M**	**BAU Variance Movement from Qtr 2 £M**
Expenditure					
Responsive repairs	12.15	12.15	0.00	0.69 F	0.69 A
Cyclical maintenance	4.97	4.57	0.40 F	0.40 F	0.00
Rents payable	0.10	0.10	0.00	0.00	0.00
Debt management	0.09	0.09	0.00	0.00	0.00
Supervision & management	24.94	23.47	1.48 F	0.05 F	1.43 F
Interest & principal repayments	8.83	8.44	0.38 F	0.00	0.38 F
Depreciation	20.92	21.55	0.63 A	0.00	0.63 A
Direct revenue financing of capital	3.88	4.36	0.49 A	0.00	0.49 A
Total Expenditure	**75.87**	**74.73**	**1.14 F**	**1.14 F**	**0.00**
Income					
Dwelling rents	(71.38)	(71.15)	0.22 A	0.22 A	0.00
Other rents	(1.20)	(1.20)	0.00	0.00	0.00
Service charge income	(2.34)	(2.34)	0.00	0.00	0.00
Leaseholder service charges	(0.95)	(0.95)	0.00	0.00	0.00
Interest received	(0.01)	(0.01)	0.00	0.00	0.00
Total Income	**(75.87)**	**(75.65)**	**0.22 A**	**0.22 A**	**0.00**
(SURPLUS)/DEFICIT	**0.00**	**(0.92)**	**0.92 F**	**0.92 F**	**0.00**

NB Numbers are rounded

The SIGNIFICANT business as usual movements between quarter 2 and quarter 3 for the Portfolio are:

Service Area	Movement in BAU Forecast Variance Between Qtr 3 and Qtr 2 £M	Explanation:
Responsive repairs	0.69 A	A review of the corporate overhead calculation and increased levels of activity in the second half of the year have resulted in an increase in forecast spend.
Supervision & Management	1.43 F	The favourable movement from Quarter 2 relates to a review of bad debt provision. The budgeted contribution had been increased to mitigate the risk of increasing arrears as a result of the pandemic. However, the arrears have remained relatively stable and a reduced provision is therefore required. It is not possible to assess the level of arrears arising from BAU or COVID directly, and therefore has been reported under BAU.
Interest & Principal Repayments	0.38 F	The favourable movement is due to a lower than budgeted capital spend in 2020/21 and 2021/22, reducing borrowing costs by £0.92M. This has been partially offset by refinancing costs of £0.54M, which will have a beneficial effect on the longer term HRA business plan.
Depreciation	0.63 A	The final depreciation calculation for 2020/21, signed off within the Statutory Accounts, was higher than that budgeted for in 2021/22. This is due to increasing materials costs impacting on the valuation calculation.
Direct Revenue Financing of Capital	0.49 A	The budget setting process for 2022/23 proposes the use of £0.92M surplus from 2021/22. In order to maintain the working balance, the Direct Revenue Financing of Capital is adjusted.

A summary of the Portfolio COVID-19 forecast variance and movement since quarter 2 is shown in the table below:

Service Area	**COVID Forecast Variance Qtr 3 £M**	**COVID Forecast Variance Qtr 2 £M**	**COVID Variance Movement from Qtr 2 £M**
Supervision & Management	0.00	0.57 F	0.57 A
Total	**0.00**	**0.57 F**	**0.57 A**

The SIGNIFICANT Covid related movements between quarter 2 and quarter 3 for the Portfolio are:

Service Area	Movement in BAU Forecast Variance Between Qtr 3 and Qtr 2 £M	Explanation:
Supervision & Management	0.57 A	This has now been built into BAU forecasting and is shown as an overall favourable movement as outlined above.

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Appendix 8

COLLECTION FUND REVENUE ACCOUNT
FOR YEAR ENDED 31ST MARCH 2022

	Current Budget 2021/22 £M	Forecast 2021/22 £M	Variance Adverse / (Favourable) 2021/22 £M
Council Tax			
Total Council Tax Income	**(130.93)**	**(131.74)**	**(0.81)**
Total Council Tax Expenditure (incl. precepts)	**128.34**	**127.91**	**(0.42)**
Council Tax Deficit/(Surplus) for the Year	**(2.60)**	**(3.83)**	**(1.23)**
Council Tax Deficit/(Surplus) Brought Forward	3.13	1.18	(1.95)
Council Tax Deficit/(Surplus) Carried Forward	**0.53**	**(2.65)**	**(3.18)**
Business Rates			
Total Business Rates Income	**(163.36)**	**(130.87)**	**32.48**
Total Business Rates Expenditure	**111.05**	**106.46**	**(4.60)**
Business Rates Deficit/(Surplus) for the Year	**(52.31)**	**(24.42)**	**27.89**
Business Rates Deficit/(Surplus) Brought Forward	56.29	50.68	(5.61)
Business Rates Deficit/(Surplus) Carried Forward	**3.98**	**26.26**	**22.28**
Total Collection Fund (Surplus)/Deficit	**4.51**	**23.61**	**19.10**

Council Tax (Surplus)/Deficit	
Contribution (to)/ from SCC	(2.25)
Contribution (to)/ from HPA	(0.31)
Contribution (to)/ from H and IOW F&R	(0.10)
Council Tax Collection Fund Balance c/f	(2.65)
NDR (Surplus)/Deficit	
Contribution (to)/ from SCC	12.87
Contribution (to)/ from DLUHC	13.13
Contribution (to)/ from H and IOW F&R	0.26
NDR Collection Fund Balance c/f	26.26
Total SCC (Surplus)/Deficit	**10.62**
LESS: Grant estimated as due from Government (General Fund)	(16.03)
NET SCC (Surplus)/Deficit for future budget purposes at Qtr 3	**(5.41)**

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CAPITAL FINANCIAL MONITORING FOR THE PERIOD TO DECEMBER 2021

1. Table 1 shows the changes to the individual portfolio programmes. The updated programme for the General Fund is £428.21M and £340.81M for the HRA.

2. Details of changes made since the start of the year, totalling a net reduction of £8.87M can be found in annex 2.1.

Table 1 – Changes to Portfolio Programmes

	Latest Programme £M	Previous Programme £M	Total Change £M
Communities, Culture & Heritage	36.65	37.15	(0.50)
Customer Service & Transformation	26.92	26.92	0.00
Education & Children's Social Care	99.90	94.34	5.56
Environment	13.45	3.25	10.20
Finance & Capital Assets	6.58	6.58	0.00
Growth	244.23	268.35	(24.12)
Health & Adult Social Care	0.48	0.48	0.00
Total GF Capital Programme	**428.21**	**437.08**	**(8.87)**
Housing Revenue Account	340.81	340.81	0.00
Total Capital Programme	**769.02**	**777.88**	**(8.87)**

NB. there may be small arithmetic variations in the table as figures have been rounded

2021/22 MONITORING POSITION

3. The forecast performance of individual capital programmes in 2021/22 is summarised in table 2 below.

Table 2 – Summary of the General Fund & HRA Capital Forecast 2021/22

	Revised Programme £M	Forecast £M	Forecast Variance £M	Forecast Variance %
Communities, Culture & Heritage	8.72	3.96	(4.75)	(54.54)
Customer Service & Transformation	16.04	12.02	(4.02)	(25.03)
Education & Children's Social Care	44.53	31.02	(13.51)	(30.33)
Environment	2.90	2.31	(0.59)	(20.23)
Finance & Capital Assets	3.58	0.63	(2.96)	(82.52)
Growth	80.35	37.87	(42.48)	(52.87)
Health & Adult Social Care	0.22	0.07	(0.14)	(66.67)
Total General Fund	**156.33**	**87.89**	**(68.44)**	**(43.78)**
Housing Revenue Account	69.92	37.94	(31.97)	(45.73)
Total Capital Programme	**226.24**	**125.83**	**(100.41)**	**(44.38)**

Financed by

*CR - GF Borrowing	(53.64)	(26.90)	(26.75)	(49.86)
*CR - HRA Borrowing	(28.72)	(16.51)	(12.21)	(42.51)
Capital Receipts	(9.52)	(2.97)	(6.55)	(68.85)
Direct Revenue Financing	(16.27)	(5.67)	(10.60)	(65.16)
Capital Grants	(86.92)	(54.32)	(32.60)	(37.51)
Contributions	(5.69)	(4.33)	(1.36)	(23.91)
HRA – MRA	(25.49)	(15.15)	(10.34)	(40.57)
Total Funding	**226.24**	**125.83**	**(100.41)**	**(44.38)**

*CR – Council Resources
NB there may be small arithmetic variations in the table as figures have been rounded

4. The forecast spend for 2021/22 is £125.83M, giving a total forecast variance of £100.41M, which is a combination of £59.09M net slippage and rephasing and £41.32M potential surplus, as detailed in table 3 below.

5. Table 3 – Breakdown of 2021/22 Forecast Variance

	(Surplus)/ Deficit £M	**(Slippage)/ Rephasing £M**	**Total £M**
Communities, Culture & Heritage	(0.82)	(3.94)	(4.75)
Customer Service & Transformation	0.02	(4.03)	(4.02)
Education & Children's Social Care	(5.01)	(8.49)	(13.51)
Environment	0.00	(0.59)	(0.59)
Finance & Capital Assets	(0.85)	(2.11)	(2.96)
Growth	(1.95)	(40.52)	(42.48)
Health & Adult Social Care	0.00	(0.14)	(0.14)
Total General Fund	**(8.61)**	**(59.82)**	**(68.44)**
Housing Revenue Account	(32.71)	0.74	(31.97)
Total Capital Programme	**(41.32)**	**(59.09)**	**(100.41)**

NB. there may be small arithmetic variations in the table as figures have been rounded

6. The General Fund programme forecast position is a surplus of £8.61M and the HRA is £32.71M. The reasons for the major forecast surplus/deficit variance changes since the end of quarter 2 are detailed in Annex 2.2 and 2.2a.

7. Slippage occurs where works are not expected to take place according to the provisions agreed in the capital programme. Re-phasing of capital expenditure is due to works being carried out sooner than anticipated, budget and funding is brought forward from future years to match the expenditure.

Forecast net slippage and rephasing is £59.09M, £59.82M of General Fund and £0.74M of HRA. Details of projects with major forecast slippage and where any rephasing has been applied are provided in Annex 2.3.

These changes in spend profile will be reflected in the February budget report.

COVID-19 IMPACT

8.	Regular review will be maintained on capital works to assess the impact of COVID-19 and any adjustment needed to the programme as a result, which will reported at the earliest opportunity. Delivery of the HRA programme has been delayed due to COVID-19, primarily as access to properties was restricted at times and other priorities. The has allowed time for the programme to be reassessed in terms of priorities and delivery timescales, resulting in £1M surplus being declared as part of this report. The budget report in February 2022 will set out the updated HRA programme.
	CAPITAL RESOURCES
9.	The resources which can be used to fund the capital programme are as follows: • Central Government Grants and from other bodies • Contributions from third parties • Council Resources - Capital Receipts from the sale of HRA assets • Council Resources - Capital Receipts from the sale of General Fund assets • Revenue Financing • Council Resources – Borrowing
10.	Capital Receipts from the sale of Right to Buy (RTB) properties are passed to the General Fund capital programme to support the Private Sector Housing schemes.
11.	It should be noted that the revised General Fund Capital programme is based on prudent assumptions of future government grants to be received. Most of these grants relate to funding for schools and transport and are unringfenced. However, in 2021/22 these grants have been passported to these areas.
12.	Annex 2.4 details the current level of available resources. This shows that the largest resource currently un-earmarked is S106 developer contributions. A review has been undertaken of all S106 and CIL monies to ensure that programmes of work are matched to the appropriate funding and to identify areas where business cases were required for new projects.
	OVERALL CAPITAL PROGRAMME AND FINANCING
13.	The revised overall programme by year, including amendments that are being requested as part of this report and use of resources, can be found in Annex 2.5.
14.	The most significant amount of funding for the General Fund programme is provided by council resources, which at present, is mainly through borrowing. Borrowing costs are in the main met within a central provision. The HRA programme is primarily funded by Major Repairs Reserve (direct revenue contribution).

	<u>SUPPORTING DOCUMENTATION</u>
Annexes	
1.	GF & HRA Programme Changes Since Last Reported Position
2.	GF & HRA Major Forecast Variances as at December 2021.
3.	GF & HRA Slippage & Rephasing as at December 2021.
4.	GF Capital Resources Available as at December 2021.
5.	GF & HRA Revised 5 Year Programme and Use of Resources.

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GENERAL FUND & HRA: PROGRAMME AMENDMENTS SINCE LAST REPORTED POSITION

Portfolio	Scheme	£M	*Council/Cabinet **Delegated Approval	Funding Source	
Additions to the Programme					
Education & Children's Social Care	St Monica's Academisation	1.26	*	Government Grant	
	SEND - Green Lane modular purchase	4.30	*	Council Resources	
		5.56			
Environment	River Itchen Flood Alleviation Scheme (RIFAS)	10.20	*	CIL	
Growth	Safer Streets	0.50	**	Council Resources	To align portf
	Highways programme	1.03	*	Government Grant	
	Integrated Transport programme	1.30	*		
		2.83			
Reductions in the Programme					
Communities, Culture & Heritage	Safer Streets	(0.50)	**	Council Resources	To align portf
Growth	Bitterne Hub	(26.95)	*	Council Resources	
Total Variations to the Overall Programme		**(8.87)**			

	£M
* - Approved By Council/Cabinet	(8.87)
** - Approved under Delegated Powers	0.00
^ - Require Approval (details in Annex 2.6)	0.00
Total Variations to the Overall Programme	**(8.87)**

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Appendix 11

GF & HRA Major Forecast Variance Since Last Reported Position

	Communities, Culture & Heritage
1.	City of Culture VE Day (Surplus of £0.51M in 2021/22, increase of £0.51M since the last reported position) This project was added to the capital programme on the assumption that there was potential grant funding available from partners for which match funding would be required. No grant funding has been made available and therefore the budget can be removed from the programme.
2.	S106 Playing Fields (Surplus of £0.31M in 2021/22, increase of £0.51M since the last reported position) These budgets represent S106 allocations which had not been linked to a specific project. However, these contributions have now been identified for being used to fund the Outdoor Sports Centre project budget resulting these budgets duplicating the same contributions therefore these budgets are to be removed from the programme.
	Finance & Capital Assets
3.	The Way We Work Programme (Surplus of £0.85M in 2021/22, increase of £0.51M since the last reported position) As part of the business case developed for the programme, the future capital proposals were estimated to cost £0.85M less that the current budget. The budget has therefore been reduced whilst is the programme is paused and on resumption it will need to operate within the proposed capital budget.
	Growth
4.	Corporate Assets Decarbonisation Scheme (CADS) (Surplus of £1.08M in 21/22, increase of £1.08M since the last reported position) Following the report to Council in November 2021, outlining that the project funding, it is proposed to remove the external contributions as they are no longer available.
	HRA
5.	Roofing Lot 1 West (flat roofs) – Surplus of £0.14M The impact of issues in the supply chain for materials, has caused delays in obtaining materials. This has been mitigated by reprofiling works until supply chain issues have been resolved. This is an annual budget that has been reviewed and set in the 2022/23 business plan.
6.	Decent Neighbourhoods Projects – Surplus of £0.28M Projects at Kathleen Road and Dempsey Close have been delayed as a result of lengthy planning and procurement processes. The tender period ends 21 January 2022. Also, Honister Close has gone past its decision date by 23 weeks. The planning approval is now imminent, and procurement is underway. As a result, this program is anticipated to incur a surplus.
7.	External Windows and Doors – Surplus of £1.54M Works involving window and door replacements undertaken by Housing Operations has faced challenges with the appointment of a suitable material supplier. Which has led to the start of the project being later than anticipated. This

	is an annual budget a more realistic proposal has been suggested for the future budgets.
8.	Wall Structure & Finish – Surplus of £0.09M The first initial delays occurred because of inability to access properties to assess the extent of work required due to COVID restriction since early 2021/22. As a result, works were on hold for three months. There has also been a shortage of labour due to Housing Operations having difficulties recruiting staff to undertake the works, which has contributed to slippage. Once a full team is employed by the Housing Operations then the project will be in full swing. Recruitment likely to take place early 2022/23. Therefore, a schedule has been produced and a true figure of spend based on the current labour levels for 2021/22 is forecast at £550k.
9.	Electrical Heating Systems – Surplus of £2.72M The new electrical heating systems have not been fully developed in line with the strategy for heating replacements. The project will continue to explore ways forward in line with good Asset management principles, but no contract has been entered into at this stage. It is possible that the decision will be taken to merge this project in with other projects for a better strategic approach though some heaters will be used in some projects and urgent replacements will still be undertaken to prevent system failures. Following the output of feasibility work, a more accurate proposal will be put forward in the next business planning process.
10.	Housing Refurbishment Programme – Surplus of £0.10M Due to shortage of labour resources Housing Operations are having difficulties recruiting staff to undertake the works. Therefore, the in-house team is unlikely to spend the budget in this financial year. This is an annual Budget, which has been reviewed as part of the 2022/23 budget setting process and the proposed budget for 2022/23 has been updated to reflect expected spend levels next year.
11.	ECO: City Energy Scheme – Surplus of £0.50M This project has been faced with delays as this budget has been used for ongoing British Gas Rectification dispute. Following the financial completion of journaled costs to the new code of CG0222, this budget is now planned for the remaining activities in relation to the ECO Contract, this involves disputes issues with the British Gas contract outside of the Fire defects and remaining works to complete the project with a package of works that sat outside the British Gas Contract and scope. Resources to progress these other works have now been sourced following a clear divide between the British Gas fire defects and other contract works for the ECO Project. As a result, this project has been reviewed and a more realistic proposal has been suggested in the 2022/23 business plan.
12.	Water Quality Remedial Works – Surplus of £0.10M Following completion of a reviewed list of inspections, a smaller number of cold-water tanks replacements/removal works identified against a larger number of replacements/removals forecasted previously. As a result, this project will incur a surplus in 2021/22.
13.	Townhill Park Regeneration - Surplus of £6.36M

	The current budget for this project has not been reflective of the planned timeline for decommissioning, demolition, and delivery works. The primary activity in the current financial year has been the decommissioning and demolition works for Plot 9, with a forecast spend of £1.2M. After a review it has been identified that the main bulk of the works will be delivered in future years. As a result, a revised profiling from 2022/23 has been proposed as part of the 2022/23 budget setting process.
14.	<u>Renew Warden Alarm – Surplus of £0.49M</u> The new digital systems that are being designed to replace the analogue systems are not generally available yet. Therefore, it is not possible to specify a suitable system as none on the market at present that meet our requirements. These systems are being developed and tested by several suppliers with an anticipated supply date in Q1 2022/23. This is an annual budget which has been reviewed as part of the 2022/23 budget setting process, and a more realistic proposal has been proposed for future year budgets.
15.	<u>Right to Buy - Satisfactory Purchase Scheme – Surplus of £2.83M</u> The Satisfactory Purchase Scheme budget is in place for purchase of properties to replace properties sold under the Right to Buy scheme. No property purchases are proposed for the current financial year, and no further purchases are currently planned.
16.	<u>ECO - Canberra Towers – Surplus of £5.76M</u> This project is for improving energy efficiency at Canberra Towers - Review of original brief provided to our contractor, AECOM, is underway. SCC and AECOM surveyor are reviewing and pinpointing water ingress and changes to the scope moving forward, including energy efficiency options for the block. Following review as part of the 2022/23 budget setting process, it is proposed that this budget is revisited and a more accurate projection put forward on completion of the feasibility work, and therefore a surplus will be declared for 2021/22.
17.	<u>ECO - Thornhill Heating – Surplus of £0.50M</u> The works in this project are being considered within a retrofit programme to better deliver elements of the "Making Homes Energy Efficient" portfolio of projects by Asset Management. Therefore, no further works are planned on this.
18.	<u>Lift Refurbishment - Shirley Towers – Surplus £0.43M</u> Spend has reduced due to late start on site resulting from COVID restrictions. There was a conscious decision to delay the works due to the knock-on impact of lift closures and the ability to maintain social distancing within tower block. As a result, the project will be incurring a surplus and future works will be covered by the proposed budget within the 2022/23 business plan.
19.	<u>Insulation Upgrades – Surplus of £0.76M</u> The new insulation installations have required the recruitment of several operatives for HOPS. This has not been as quick as expected due to staff shortages, covid and other priorities and so far, only one team has been appointed. This is an annual budget and after a review a more accurate proposal has been proposed as part of the 2022/23 budget setting process.

20.	<u>Millbank House EWI Refurbishment– Surplus of £0.80M</u> An appraisal is being undertaken on this project to determine whether it is viable to undertake the work. The consultant brief for the appraisal is currently with procurement, and after allowing for the review to be undertaken, works are unlikely to take place in 2021/22. This is an annual budget, which has been reviewed and revised as part of the 2022/23 budget setting process.
21.	<u>Millbrook House - EWI Upgrade – Surplus of £0.27M</u> These works are being considered within a retrofit programme to better deliver elements of the "Making Homes Energy Efficient" portfolio of projects by Asset Management. Therefore, no further works are planned on this project.
22.	<u>Albion Towers Heating– Surplus of £0.45M</u> The process of agreeing the option took longer than originally anticipated due to two options being presented within the appraisal. A final decision has been made to progress the electrical solution at this stage. After a review the programme this budget has been reset within the 2022/23 Business plan.
23.	<u>New Homes – Surplus of £5.02M</u> Following a review of the programme the budget for this programme has been reprofiled as part of the 2022/23 business planning process on the basis that design work for plots 2,9 and 10 Townhill Park only will be carried out in 2021/22. The budgets for 2022/23 and beyond have been reviewed and revised as part of the business planning process.
24.	<u>Cllr Ward Area Improvements – Surplus of £0.39M</u> There are currently no plans in place to spend against this budget and therefore a surplus is to be declared.
25.	<u>Passive Fire Safety Works – Surplus of £5.63M</u> There has been a delay in progressing a procurement plan and the legal process. Procurement stage and the legal process has had an impact on the forecast spend with a delay in the anticipated start of construction work. Bidders were not prepared to submit a tender and an alternative approach has been developed. Also, the legal process has been delayed due to the availability of key members of the consultant legal team, negotiations still ongoing. After a review of the programme a more realistic proposal has been suggested in the 2022/23 business plan.
26.	<u>Fire Risk Assessment Reviews – Surplus of £0.80M</u> This budget has been identified within the HRA revenue budget and therefore not required in the Capital programme.
27.	<u>Communal Areas Works – Deficit of £0.29M</u> There has been an increasing number of door replacements taking place that leaseholders pay for. However, the income is fed into Housing Revenue Account and not against the Capital. Therefore, the budget is set to incur a deficit.

28.	Door Entry Systems – Deficit of £0.20M Contractor have submitted all prices for this year's budget allocation and a schedule provided which completed in December 2021. After a review further works have been identified that requires SCC12/Iprox upgrades and properties that require full door/screen upgrades. Prices are in hand for the above works. As a result, this project is forecasted to incur a deficit.
29.	Hants Fire & Rescue Service - Fire Safety / Sprinkler Project – Deficit of £2.00M Additional spend has been identified around additional fire stopping and flat ventilation requiring replacement of non-functioning extract fire damper cones with fire damper grilles to ensure adequate extraction and protection against smoke and fire spread. In addition to this, existing ducts and grilles were found to contain asbestos containing products, which requires protection to be put in place while the original plan for upgrading the system as a separate project is subject to a feasibility exercise. As a result, this project is forecasted to have a deficit of just over £2M.
30.	Structural Works – Deficit of £0.20M The deficit is due to small backlog of works arising from restricted access under COVID restrictions in early 2021/22. After a review some minor concrete repairs and four bay window replacements are required to be carried out. As a result, this project is forecasted to be in deficit.
31.	Block Modernisation Programme – Deficit of £0.34M Project is progressing ahead programme and the team has been replacing leaseholder doors which the leaseholders pay for. Works are pressing ahead of programme, however, door deliveries starting to be extended so orders are needed to be raised for 2022/23 programme. As a result, this project is forecasted to incur a deficit in 2021/22.
32.	Sprinkler Work – Deficit of £0.20M Tenders for this project have been returned and subsequently assessed. The budget will be incurring a deficit due to previously unidentified work.

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Appendix 12

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Appendix 13

Forecast Major GF & HRA Slippage & Rephasing Since Last Reported Position

	Communities, Culture & Heritage
1.	Art Gallery Roof (Slippage of £0.90M from 2021/22 to 2022/23, £0.90M increase from last reported position) The repairs to the Art Gallery roof went out to tender, but due to the specialist nature of the work, no tenders for the work were received causing a delay to the scheme. The potential procurement of the works is being reviewed and therefore the majority of the work is unlikely to be completed this financial year.
2.	1000 Parking Spaces - GF (Slippage of £0.33M from 2021/22 to 2022/23, £0.33M increase from last reported position) Survey works are being undertaken to establish final list of sites and associated costings by February 2022. Majority of sites are likely to be delivered in 2022/23 as a result, and therefore it is proposed to slip this budget.
3.	Golf Course (Slippage of £0.50M from 2021/22 to 2022/23, £0.50M increase from last reported position) Works to improve the course and make it more suitable for all-weather play will be undertaken in autumn 2022. This includes improvements to drainage systems and a shelter over the practice ground. The possibility of developing a borehole to improve access to a water supply will also be invested as part of the development work.
	Customer Service & Transformation
4.	IT Equipment and Software Refresh (Slippage of £1.30M from 2021/22 to 2022/23, £1.30M increase from last reported position) Various elements of the IT Capital Strategy have slipped due to delays in project progression, delays due to Covid or reprioritisation of individual projects. These costs will now fall in 2022/23.
5.	Purchase of Vehicles (Slippage of £1.26M from 2021/22 to 2022/23, £0.56M increase from last reported position) The forecast had been updated to reflect expected deliveries of new vehicles as part of the fleet replacement programme before the end of March. The lead time for several orders has increased due to difficulties manufactures are having in sourcing semiconductors for electronic control modules. This is having an adverse effect on global vehicle supplies and increasing lead times on vehicles.
6.	Western Shore Coastal Erosion (Slippage of £0.97M from 2021/22 to 2022/23, £0.97M increase from last reported position) The original design of using a concrete wall to protect the shoreline is not feasible due to the condition of the land underneath. Alternative methods for delivering the scheme have been assessed and the scheme will now be based on a rock amour revetment with construction in 2022/23.

7.	Mayflower Park Revetments (Slippage of £0.13M from 2021/22 to 2022/23, £0.13M increase from last reported position) The budget was initially intended to fund patch repairs. In the last year, however, the condition of the revetment has deteriorated to the point where it is beyond economic repair and there are health and safety issues due to the current condition. A feasibility study to establish options for the replacement of the revetment has been undertaken and the budget has been slipped to part fund future capital works in the new financial year.
8.	Green Flag Improvements (Slippage of £0.25M from 2021/22 to 2022/23, £0.25M increase from last reported position) This was a budget allocation made in year which led to a full improvement programme being developed to ensure best use of the funding. This includes improvements to Weston Shore, Central Parks, Riverside Park, Town Quay, Freemantle Lake Park, Cedar Lodge Park, Portswood Rec, Mansel Park, Hinkler Green and Mayfield Park. These works will now be undertaken in the 2022/23 financial year.
	Education & Children's Social Care
9.	R&M Programme for Schools (Slippage of £1.80M from 2021/22 to 2022/23, £0.66M increase from last reported position) Regents Park Roof (Slippage of £0.58M from 2021/22 to 2022/23) Confirmation has now been received from the school in respect of term time working being acceptable and project has been reprofiled. Works anticipated to span financial years 21/22 & 22/23. A number of other small slippages due to scheduling of works to take place in 2022 Easter and Summer holidays.
10.	St George's Expansion (Slippage of £0.53M from 2021/22 to 2022/23, £0.06M increase from last reported position) The reason for this change is that the construction works were previously anticipated to commence in March 2022. The Contractor has developed a detailed programme, which now identifies construction works commencing in April 2022. Therefore, there will be no capital expenditure on construction within the 21/22 financial year.
11.	Regents Park Sports Facility (slippage of £1.35M from 2021/22 to 2022/23, £1.35M increase from last reported position) The School are requesting a review of a heavily reduced Modular Sports Hall for consideration, a feasibility study will need to be undertaken before a decision can be made therefore this work will not start until the new financial year.
	Environment
12.	Green City Action Plan (Slippage of £0.58M from 2021/22 into 2022/23, £0.58M increase from last reported position) £0.40M of this has been earmarked as match funding for the Zero Emissions Bus Regional Areas (ZEBRA) project for which a full business case has been submitted for funding to the DFT, this funding has been slipped to align with the proposed project plan. The balance of this slippage of £0.18M is for city wide initiatives including clean air, waste management and water management it

	has taken longer than originally expected to develop these projects therefore some of the expenditure for these will occur in 2022/23.
	Growth
13.	<u>Northam Rail Bridge & Northam Rail Bridge and Corridor Improvements (Slippage of £7.07M from 2021/22 to 2022/23, £7.07M increase from last reported position)</u> An outline business case for funding for this scheme has recently been submitted to the Department for Transport. It is anticipated that works will commence until 2023/24. Prior to this once funding for the scheme is known and feasibility and design works begin, a more accurate timeline for the scheme will be drafted and the budget reprofiled to match.
14.	<u>Lordswood Close – Unadopted Road (Slippage of £0.25M from 2021/22 to 2022/23, £0.25M increase from last reported position)</u> Works at Lordswood Close will not commence until a policy for works on unadopted roads has been established. It is expected that the policy will be completed by the end of the financial year and works will begin in 22/23.
15.	<u>QE2 Mile – Bargate Square & S106 QE2 Mile (Slippage of £1.26M from 2021/22 to 2022/23, £1.26M increase from last reported position)</u> Works are now planned to coincide with the Bargate shopping centre redevelopment which has been delayed whilst a main developer was secured. A larger scheme is planned and proposal for this is to be included in the February 22 budget. Once feasibility works commence a more accurate timeline for the scheme will be known
16.	<u>Local Transport Improvement Fund (Slippage of £0.24M from 2021/22 to 2022/23, £0.24M increase from last reported position)</u> Requests for schemes to be have resulted in bids and these proposals are currently being assessed. It is therefore anticipated there will be minimum spend on smaller works and feasibilities only in this financial year.
17.	<u>Cycling - ATF - Access to Southampton General (Slippage of £0.40M from 2021/22 to 2022/23, £0.40M increase from last reported position)</u> Construction is now planned for August 2022 with the only costs in 2021/22 will be for design, the remaining budget will be slipped in to then new financial year.
18.	<u>Additional Roads Programme (Slippage of £1.25M from 2021/22 to 2022/23, £1.25M increase from last reported position)</u> The £1.00M has been earmarked for the large Itchen Bridge scheme that involves drainage and footway reconstruction and the addition of suicide mitigation measures is now due to commence in 2022/23. And £0.25M was previously earmarked to cover an overspend that is no longer an issue so an additional scheme next year within the pothole programme has been identified to be carried out 2022/23.

19.	Highways Improvements - Developer (Slippage of £0.16M from 2021/22 to 2022/23, £0.16M increase from last reported position) This budgets represent S106 allocations which have not been linked to a specific project. A review of these contributions is being carried out which will lead to works in 2022/23.
20.	Bridge Works (Slippage of £0.55M from 2021/22 to 2022/23, £0.55M increase from last reported position) £0.31M has been earmarked for the large Itchen Bridge scheme that involves drainage and footway reconstruction and the addition of suicide mitigation measures is now due to commence in 2022/23; £0.12M for the Bridge Assessment Programme (10 structures) which commenced in 2021/22 and will continue to run into 2022/23; £0.10M for the Tebourba Way (South) Subway Infill which is currently on hold for 2021/22 pending consultation with the ward Councillors; £20k for Rail bridge inspections x 5 which commenced in May 2021, half have been completed and the rest will be done during 2022.
21.	S106 Highways/Integrated Transport (Slippage of £0.42M from 2021/22 to 2022/23, £0.42M increase from last reported position) These budgets represent S106 allocations which have not been linked to a specific project. A review of these contributions is being carried out which will lead to works in 2022/23.
22.	Future Transport Zone (Slippage of £10.14M from 2021/22 to 2022/23 & 2023/24, £10.14M increase from last reported position) Based on the detailed project plan and a review of the budgets for this scheme the budget needs to be reprofiled accordingly, recognising that the programme is due to be completed in 2023/24
23.	Transforming Cities Fund (Slippage of £18.25M from 2021/22 to 2022/23 & 2023/24, £18.25M increase from last reported position) Based on the detailed project plan and a review of the budgets for this scheme the budget needs to be reprofiled accordingly. This profile recognises the change control requests submitted to the Department for Transport to align the programme with the new administrations objectives and the delays to schemes this have caused.
24.	Safer Streets (Slippage of £0.35M from 2021/22 to 2022/23, £0.35M increase from last reported position) Requests for areas of to be considered for safety measures were bid for, these proposals are currently being assessed. It is therefore anticipated there will be minimum spend on smaller works and feasibilities only in this financial year.
	HRA
25.	Roofing Lot 2 East (Rephase of £0.43M from 2025/26, 2024/25 and 2023/24 into 2021/22, £0.43M increase from last reported position) Contractors can carry out works faster with the expectation to finish works this financial year. This allows scope to accelerate works from future years in 2021/22. Given the current shortages of building materials globally early ordering is essential to meet this year's revised spend profile. As a result, works are being

	brought forward and expected to be complete this financial year as per property allocation.
26.	Block Modernisation Programme (Rephase of £1.50M from 2022/23 into 2021/22, £1.50M increase from last reported position) Project progressing ahead programme as the team has been replacing leaseholder doors which the leaseholders pay for. Works are pressing ahead of programme, however, door deliveries starting to be extended so orders are needed to be raised for 2022/23 programme. As a result, works are being brought forward from 2022/23 into 2021/22.
27.	Decent Neighbourhoods Projects (Slippage of £0.60M from 2021/22 into 2022/23, £0.60M increase from last reported position) Both Kathleen Road and Dempsey Close has been delayed in planning and procurements. The tender period ends 21 January 2022. Also, Honister Close has gone past its decision date by 23 weeks. The planning approval is now imminent, and procurement is underway. As a result, some of the works will be slipped into 2022/23.
28.	Estate Regeneration Woodside/Wimpson (Slippage of £0.31M from 2021/22 into 2022/23, £0.31M increase from last reported position) This project is at its final stage and the slippages is due to retention that will be released once the project is finalised.
29.	1,000+ Parking Spaces (HRA Element) (Slippage of £0.22M from 2021/22 into 2022/23, £0.22M increase from last reported position) Survey works are being undertaken to establish final list of sites and associated costings by February 2022. Majority of sites are likely to be delivered in 2022/23 as a result, and therefore it is proposed to slip this budget.

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Capital Resources Available as at December 21 (Capital Receipts; Community Infrastructure Levy and Section 106 funds)

Resource	Balance Bfwd £M	Received to Date 2020/21 £M	Allocated to Current Programme £M	Ear-marked £M	Available Funding £M	Anticipated Receipts £M
Capital Receipts	(0.01)	(1.83)	2.40	0.00	0.00	(0.56)
CIL	(14.93)	(1.47)	14.72	1.27	(0.41)	(0.37)
S106	(9.94)	(0.22)	8.93	0.00	(1.23)	(0.13)
	(24.88)	**(3.52)**	**23.82**	**1.27**	**(1.64)**	**(1.06)**

NB. there may be small arithmetic variations in the table as figures have been rounded

General Fund Capital Receipts Forecast

	Bfwd £M	2021/ 2022 £M	2022/ 2023 £M	2023/ 2024 £M	2024/ 2025 £M	2025/ 2026 £M	Total £M
Current Forecast	(0.01)	(2.39)	(1.60)	0.00	0.00	0.00	(4.00)

NB. there may be small arithmetic variations in the table as figures have been rounded

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General Fund & HRA - Revised 5 Year Programme Totals and Use of Resources

Programme Comparison

	2021/ 2022 £M	2022/ 2023 £M	2023/ 2024 £M	2024/ 2025 £M	2025/ 2026 £M	Total £M
Revised Programme	226.24	272.86	147.24	87.73	34.95	769.02
Previous Programme	223.28	294.80	142.88	83.49	33.45	777.88
Movement	**2.97**	**(21.94)**	**4.37**	**4.24**	**1.50**	**(8.87)**

Programme	**2021/ 2022 £M**	**2022/ 2023 £M**	**2023/ 2024 £M**	**2024/ 2025 £M**	**2025/ 2026 £M**	**Total £M**
Communities, Culture & Heritage	8.72	23.79	4.10	0.05	0.00	36.65
Customer Service & Transformation	16.04	4.57	3.31	3.02	0.00	26.92
Education & Children's Social Care	44.53	53.01	2.31	0.04	0.00	99.90
Environment	2.90	0.77	4.08	4.20	1.50	13.45
Finance & Capital Assets	3.58	1.00	1.00	1.00	0.00	6.58
Growth	80.35	111.96	34.30	13.80	3.83	244.23
Health & Adult Social Care	0.22	0.10	0.10	0.07	0.00	0.48
Total General Fund	**156.33**	**195.19**	**49.20**	**22.17**	**5.33**	**428.21**
Housing Revenue Account	69.92	77.67	98.05	65.55	29.62	340.81
TOTAL CAPITAL PROGRAMME	**226.24**	**272.86**	**147.24**	**87.73**	**34.95**	**769.02**

Use of Resources	**2021/ 2022 £M**	**2022/ 2023 £M**	**2023/ 2024 £M**	**2024/ 2025 £M**	**2025/ 2026 £M**	**Total £M**
*CR - GF Borrowing	(53.64)	(113.83)	(16.76)	(12.76)	(1.91)	(198.91)
*CR - HRA Borrowing	(28.72)	(37.11)	(60.22)	(30.30)	(2.24)	(158.59)
Capital Receipts	(9.52)	(14.18)	(9.01)	(4.32)	(2.77)	(39.78)
Direct Revenue Financing	(16.27)	(9.64)	(7.50)	(6.70)	(3.41)	(43.52)
Capital Grants	(86.92)	(70.52)	(24.94)	(2.71)	0.00	(185.09)
Contributions	(5.69)	(6.05)	(6.70)	(8.23)	(1.19)	(27.86)
HRA – MRA	(25.49)	(21.53)	(22.12)	(22.71)	(23.42)	(115.27)
Total Financing	**(226.24)**	**(272.86)**	**(147.24)**	**(87.73)**	**(34.95)**	**(769.02)**

*CR – Council Resources

NB. there may be small arithmetic variations in the tables as figures have been rounded

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DECISION-MAKER:	CABINET COUNCIL			
SUBJECT:	THE REVENUE BUDGET 2022/23, MEDIUM TERM FINANCIAL STRATEGY AND CAPITAL PROGRAMME			
DATE OF DECISION:	21 FEBRUARY 2022 (Cabinet) 23 FEBRUARY 2022 (Council)			
REPORT OF:	CABINET MEMBER FOR FINANCE AND CAPITAL ASSETS			

CONTACT DETAILS				
Executive Director	**Title:**	Executive Director for Finance, Commercialisation & S151 Officer		
	Name:	John Harrison	**Tel:**	023 80834897
	E-mail:	John.Harrison@southampton.gov.uk		
Author:	**Title:**	Head of Financial Planning & Management		
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	E-mail:	Steve.Harrison@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY

Appendix 5 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.

Appendix 6 of this report is not for publication by virtue of categories 3 (financial and business affairs), and 7A (obligation of confidentiality) of paragraph 10.4 of the Council's Access to Information Procedure Rules, as contained in the Council's Constitution. It is not in the public interest to disclose this information as Appendix 6 to the report contains confidential and commercially sensitive information in relation to one of the Council's counterparties. It would prejudice the Council's ability to operate in a commercial environment and obtain best value in contract negotiations and would prejudice the Council's commercial relationships with third parties if they believed the Council would not honour obligations of confidentiality.

EXECUTIVE SUMMARY

This report details the revenue budget for 2022/23 and the Medium Term Financial Strategy (MTFS) for the period 2022/23 to 2025/26. It provides detail to inform Council in setting Council Tax and rents for 2022/23.

The report also details the General Fund and Housing Revenue Account (HRA) Capital Strategy and Programme for the period 2021/22 to 2026/27.

The report identifies how the 2022/23 budget has been balanced since the shortfall report at Cabinet in December, which was £9.01M. It outlines how additional funds arising from the local government finance settlement and also applying a further £6.8M allocation (to make £8.5M in total) of funds

from a one off surplus from the 2020/21 outturn position have helped both balance the budget and meet new pressures arising since December. Details of the budget and capital programme are included in the following appendices and annexes thereto: Appendix 1 The Revenue Budget 2022/23 and Medium Term Financial Strategy 2022/23 to 2025/26 Appendix 2 The Capital Strategy & General Fund Programme 2021/22 to 2026/27 Appendix 3 The HRA Budget 2022/23 and Capital Programme 2021/22 to 2026/27		
RECOMMENDATIONS:		
CABINET		
Cabinet is recommended to:		
General Fund		
	i)	Note the forecast outturn position for 2021/22 as set out in paragraphs 25 to 30 of Appendix 1.
	ii)	Note the revised Medium Term Financial Strategy 2022/23 to 2025/26 as detailed in paragraphs 69 to 75 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 23 February 2022 as set out in paragraph 32 of Appendix 1.
	iv)	Note that the Equality and Safety Impact Assessment process that was followed as set out in paragraphs 40 to 43. The updated ESIAs and Cumulative Impact Assessment are available documents in the Members' Room.
	v)	Note that a consultation on the discontinuation of leisure services at St Mary's Leisure Centre is the subject of a separate report to Cabinet on 21 February 2022, as noted in paragraph 39.
	vi)	Note that the Executive's budget proposals are based on the assumptions detailed within the MTFS and that this includes no increase in the 'core' council tax or Adult Social Care precept for 2022/23.
	vii)	Note that Executive Commitments totalling £4.93M are included in the 2022/23 General Fund Revenue Budget, reducing to £4.50M in 2025/26, as detailed in paragraph 51 of Appendix 1.
	viii)	Note that the report identifies general fund pressures totalling £14.83M in 2022/23, rising to £18.01M in 2025/26, as detailed in paragraph 54 of Appendix 1.
	ix)	Note that savings proposals totalling £10.87M are included in the 2022/23 General Fund Revenue Budget, rising to £23.52M in 2025/26, as detailed in paragraph 59 of Appendix 1.
	x)	Note that the budget sets the Band D Council Tax for Southampton City Council at £1,644.39 for 2022/23, a Net Budget Requirement of £193.05M and the Council Tax Requirement for 2022/23 at £108.77M as per Annex 1.2.
	xi)	Note that further proposals will need to be considered to address the 2023/24 and future years budget shortfall.
	xii)	Note and recommend to council where appropriate, the MTFS and General Fund Revenue Budget changes as set out in Council recommendations i) to xiv).

	xiii)	Notes the Code of practice on financial management introduced by CIPFA and set out in paragraphs 33 to 36 and that good financial management is assigned to all senior management levels in the council as well as councillors.
General Fund Capital Programme		
	xiv)	Note the revised General Fund Capital Programme, which totals £426.20M (as detailed in paragraphs 2 to 6 of Appendix 2) and the associated use of resources.
	xv)	Note that £30.35M has been added to the General Fund programme, with approval to spend. These additions are detailed in paragraphs 13 to 38 of Appendix 2 and Annex 2.1.
	xvi)	Note that a further £58.44M has been added to the General Fund programme, requiring approval to spend by Cabinet/Council subject to the relevant financial limits. These additions are detailed in paragraphs 13 to 38 of Appendix 2 and Annex 2.1.
	xvii)	Note the request for approval to spend a further £2.75M relating to the SEND (Special Educational Needs and Disabilities) programme as detailed in paragraph 10 of Appendix 2.
	xviii)	Note the request for approval to spend £19.96M in 2022/23, £10.06M in 2023/24 and £0.95M in 2024/25 to deliver the Highways and Integrated Transport programmes and Future Transport Zone, as detailed in paragraph 11 of Appendix 2.
	xix)	Note the removal of schemes from the capital programme totalling £90.80M as set out in paragraphs 13 to 38 of Appendix 2 and detailed in Annex 2.1.
	xx)	Note that the capital programme remains fully funded up to 2026/27 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.
	xxi)	Note that a review of the Council’s Capital Strategy has been undertaken as detailed in Annex 2.3.
	xxii)	Note that a review of the Council’s MRP (Minimum Revenue Provision) Strategy has been undertaken as detailed in Annex 2.3(a).
	xxiii)	Note that a review of the Council’s Investment Strategy has been undertaken as detailed in Annex 2.3(b).
Housing Revenue Account		
	xxiv)	Note that no rent increase will be applied to dwelling rents from 1 April 2022, as set out in paragraph 8 of Appendix 3.
	xxv)	Note that no increase will be applied to weekly service charges from 1 April 2022, as detailed in paragraphs 11 to 14 of Appendix 3.
	xxvi)	Note and recommend to council the Housing Revenue Account Revenue Estimates as set out in Appendix 3.
	xxvii)	Note the 40 year Business Plan for revenue and capital expenditure set out in Annexes 3.1 and 3.3 of Appendix 3 respectively, that based on current assumptions are sustainable and maintain a minimum HRA balance of £2.0M in every financial year.
	xxviii)	Note the increase in heating charges set out in paragraph 15 of Appendix 3 and Annex 3.2.

	xxix)	Note the revised Housing Revenue Account (HRA) Capital Programme, which totals £301.34M (as detailed in paragraph 30 & 40 of Appendix 3) and the associated use of resources.
	xxx)	Note the reduction of £70.05M in the HRA Capital Programme as detailed in paragraph 31 of Appendix 3.
COUNCIL		
Council is recommended to:		
General Fund		
	i)	Note the Equality and Safety Impact Assessment process that was followed as set out in paragraphs 40 to 43. The updated ESIAs and Cumulative Impact Assessment are available documents in the Members' Room.
	ii)	Note the forecast outturn position for 2021/22 as set out in paragraphs 25 to 30 of Appendix 1.
	iii)	Approve the revised Medium Term Financial Strategy (MTFS) for the period 2022/23 to 2025/26 attached as Annex 1.1.
	iv)	Approve the 2022/23 General Fund Revenue Budget as detailed in Annex 1.1(a) of the MTFS at Annex 1.1.
	v)	Note that the Executive's budget proposals are based on the assumptions detailed within the MTFS and that this includes no increase in the 'core' council tax or Adult Social Care precept for 2022/23.
	vi)	Notes the Executive Commitments totalling £4.93M that are included in the 2022/23 General Fund Revenue Budget, reducing to £4.50M in 2025/26, as detailed in paragraph 51 of Appendix 1.
	vii)	Approve additional general fund pressures totalling £14.83M in 2022/23, rising to £18.01M in 2025/26 as detailed in paragraph 54 of Appendix 1.
	viii)	Approve savings proposals totalling £10.87M that are included in the 2022/23 General Fund Revenue Budget, rising to £23.52M in 2025/26, as detailed in paragraph 59 of Appendix 1.
	ix)	Delegate authority to the Executive Director for Finance, Commercialisation & S151 Officer, following consultation with the Cabinet Member for Finance and Capital Assets, to do anything necessary to give effect to the proposals contained in this report.
	x)	Delegate authority to the Executive Director for Finance, Commercialisation & S151 Officer, following consultation with the Cabinet Member for Finance and Capital Assets, to do anything necessary to give effect to the government's proposals for support for energy prices in so far as they relate to Southampton City Council.
	xi)	Set the Band D Council Tax for Southampton City Council at £1,644.39 for 2022/23, a Net Budget Requirement of £193.05M and the Council Tax Requirement for 2022/23 at £108.77M as per Annex 1.2.
	xii)	Note the estimates of precepts on the council tax collection fund for 2022/23 as set out in Annex 1.3.

	xiii)	Agree that the following amounts be now calculated by the Council for the financial year 2022/23 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 2022/23 is not excessive in accordance with principles approved by the Secretary of State under Section 52ZC of the Act. a) **£534,064,689** (being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act). b) **£425,294,868** (being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act). c) **£108,769,821** (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). d) **£1,644.39** (being the amount at (c) above (Item R), all divided by the tax base of 66,146 (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).
	xiv)	Notes the Code of practice on financial management introduced by CIPFA and set out in paragraphs 33 to 36 and that good financial management is assigned to all senior management levels in the council as well as councillors.
General Fund Capital Programme		
	xv)	Approve the revised General Fund Capital Programme, which totals £426.20M (as detailed in paragraphs 2 to 6 of Appendix 2) and the associated use of resources.
	xvi)	Approve addition and spend of £30.35M which has been added to the General Fund programme. These additions are detailed in paragraphs 13 to 38 of Appendix 2 and Annex 2.1.
	xvii)	Approve addition of £58.44M which has been added to the General Fund programme requiring approval to spend by Cabinet/Council subject to the relevant financial limits, subject to a business case. These additions are detailed in paragraphs 13 to 38 of Appendix 2 and Annex 2.1.
	xviii)	Approve the request to spend £2.75M as part of the SEND work as detailed in paragraph 10 of Appendix 2.
	xix)	Approve the request to spend £19.96M in 2022/23, £10.06M in 2023/24 and £0.95M in 2024/25 to deliver the Highways and Integrated Transport programmes and Future Transport Zone, as detailed in paragraphs 35-37 of Appendix 2.
	xx)	Approve the removal of schemes from the capital programme totalling £90.80M as set out in paragraphs 13 to 38 of Appendix 2 and detailed in Annex 2.1.
	xxi)	Note that the capital programme remains fully funded up to 2026/27 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.
	xxii)	Approve the Council's Capital Strategy detailed in Annex 2.3.
	xxiii)	Approve the Council's MRP Strategy detailed in Annex 2.3(a).
	xxiv)	Approve the Council's Investment Strategy detailed in Annex 2.3(b).

Housing Revenue Account		
	xxv)	Approve that no increase be applied to dwelling rents from 1 April 2022, as set out in paragraph 8 of Appendix 3.
	xxvi)	Approve that no increase be applied to weekly service charges from 1 April 2022, as detailed in paragraphs 11 to 14 of Appendix 3.
	xxvii)	Approve the Housing Revenue Account Revenue Estimates as set out in Appendix 3.
	xxviii)	Approve the 40 year Business Plans for revenue and capital expenditure set out in Annexes 3.1 and 3.3 of Appendix 3 respectively, that based on current assumptions are sustainable and maintain a minimum HRA balance of £2.0M in every financial year.
	xxix)	Approve the increase in heating charges as detailed in paragraph 15 of Appendix 3 and Annex 3.2.
	xxx)	Approve the revised Housing Revenue Account (HRA) Capital Programme, which totals £301.34M (as detailed in paragraph 30 & 40 of Appendix 3) and the associated use of resources.
	xxxi)	Approve the reduction of £70.05M in the HRA Capital Programme as detailed in paragraph 31 of Appendix 3.

REASONS FOR REPORT RECOMMENDATIONS	
1.	The Council is a large and complex organisation managing the delivery of a vast range of businesses either directly or through/with others. Its core purpose is to improve the quality of life for residents and effective financial management is key to this. It is important that Members are aware of the major financial opportunities and challenges and that they make informed decisions. The Council regularly revises its Medium Term Financial Strategy (MTFS) so that the financial position is clear for budget proposals to be drawn up for the forthcoming year.
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 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 23 February 2022.
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 Capital Strategy and an updated Capital Programme are included

	as Appendix 2 to the report, and the latest position is included in the Medium Term Financial Forecast Model.
6.	This report sets out the HRA revenue budgets for 2022/23 and the 40 year HRA business plan covering the period 2022/23 to 2061/62. The proposed changes to heating charges and the freezing of rent and service charges are an integral part of the revenue estimates for 2022/23.
7.	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 £60,000 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. The overall financial position is considered when formulating the budget and the financing of the capital programme. Prudential Indicators, including the forecast share of capital financing on the council's net budget is reported in Capital Strategy at annex 2.3 of this report.

DETAIL (Including consultation carried out)	
	<u>GENERAL FUND REVENUE BUDGET AND MEDIUM TERM FINANCIAL STRATEGY</u>
8.	Details of the Revenue Budget for 2022/23 and the updated Medium Term Financial Strategy 2022/23 to 2025/26 are given in Appendix 1 and annexes thereto.
9.	A report providing an update on the budget position for 2022/23 was presented to Cabinet on 20 December 2021. Appendix 1 provides an update to that report, giving details of the council's financial resources following the 2022/23 provisional local government finance settlement and sets out the final proposals in respect of executive commitments, additional budgetary pressures and savings, following review of the initial proposals and taking into account feedback received and the latest financial monitoring position.
10.	The position reported in December 2021 showed a budget shortfall for 2022/23 of £9.01M. The updated position is a balanced budget for 2022/23 and budget shortfalls of £23.43M (2023/24), £21.46M (2024/25) and £21.95M (2025/26) respectively. A summary of all of the changes with respect to 2022/23 since the shortfall position reported in December 2021 is provided in paragraph 70 of Appendix 1. Future budget shortfalls represent a major challenge requiring considerable focus and work by the Cabinet and the Executive Management Team.
11.	The budget proposals set out in December 2021 were based on a freeze in the 'core' council tax for 2022/23, as agreed by Full Council in July 2021. Cabinet was asked to confirm whether the freeze would be extended to the Adult Social Care precept, if flexibility to increase this by 1% was made available in the provisional local government finance settlement. The recommendation in this report is to freeze both the core council tax and Adult Social Care precept for 2022/23. By applying the freeze in council tax it will mean the average council tax payer (at band D) will save £49.23 compared with a 2.99% increase.
12.	The Medium Term Financial Strategy does not reflect any changes that may arise in future years through reform of the local government finance system. In the provisional local government finance settlement, the Government announced its intention to begin work again in 2022 on reviewing how the system operates in order to deliver its 'levelling up' agenda, with proposals expected to be put forward as early as Spring this year. Although the 2021 Spending Review covers a 3-year period up to 2024/25, the provisional finance settlement only provides funding allocations for 2022/23. For the purposes of financial planning, the MTFS assumes that the council will be no better or worse off in funding terms from any policy changes resulting from reviews to the local government finance system, with the exception of the new Services Grant, which the Government made clear would not form part of any

	transitional protection arrangements. Similarly, for the purposes of the MTFS the financial impact of the Social Care Reforms announced in 2021 is assumed to be neutral until more detailed information is available. Due to uncertainty over future funding as well as spending pressures being far more volatile than ever before, the MTFS will be kept under regular review.
	CAPITAL STRATEGY AND GENERAL FUND CAPITAL PROGRAMME
13.	Details of the General Fund capital programme for 2021/22 to 2026/27 and the updated Capital Strategy are given in Appendix 2 and annexes thereto.
14.	Appendix 2 highlights the proposed changes to the General Fund capital programme from the last reported monitoring position to Cabinet in February 2022. The net result of the changes is that the programme has decreased by £2.02M, with the removal of Bitterne Community Hub and a reduction in anticipated external funding being the key reductions. This is offset by additional investment in highways, public realm, district centre improvements and recycling infrastructure.
15.	The capital budget proposals put forward as part of this report reflect the anticipated needs of the Council over the next 5 years with significant investment to delivery the aims within the agreed Corporate Plan.
16.	Annex 2.3 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. The capital programme will be kept under regular review, both in terms of future affordability.
	HOUSING REVENUE ACCOUNT BUDGET AND CAPITAL PROGRAMME
17.	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 3 on the HRA revenue budget 2022/23 and 40 year operating account. The proposals include the freezing of dwelling rents and service charges for 2022/23.
18.	Appendix 3 highlights the proposed changes to the HRA capital programme since the last reported monitoring position to Cabinet in February 2022. The net result of the changes is that the programme has reduced by £70.05M, predominantly as a result of changes to the regeneration capital budgets.
	STATEMENT OF THE SECTION 151 OFFICER IN ACCORDANCE WITH THE LOCAL GOVERNMENT ACT 2003 – ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES
19.	There are a number of major sources of change and uncertainty arising from the external environment, which may impact on the council's costs and funding. The pandemic has continued to dominate events during 2021, with associated financial and economic implications, which are likely to extend beyond 2021/22 and into 2022/23 and after. The Bank of England reported in November 2021 that the UK economy is getting close to where it was before the pandemic and the Office of Budget Responsibility (OBR) has indicated that the economy is recovering faster than originally expected from the impacts of the pandemic. Unemployment is at a lower rate than previously predicted but inflation continues to run high with the latest figures revealing a 5.4% increase in the twelve months to December,

its highest rate in 10 years. In addition, the Bank of England took the decision in December 2021 to increase the bank rate by 0.15% to 0.25%, with an additional increase to 0.5% in January 2022, which will also have an impact on the economy over the coming year.

The major risks and uncertainties include:

- The ongoing impacts of COVID-19 remain uncertain, both in terms of service pressures and economic impact. At the time of writing restrictions have been lifted but the risks remain and the short and long term economic impact arising remains to be seen.
- There continues to be a possibility that income derived from both council tax and business rates will be adversely affected as the economy adjusts to the impact of COVID-19 and Brexit. Both of these aspects will be kept under review.
- The settlement from Government was for one year only, with a more fundamental review of local government funding starting in 2022. The government “is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources” but there is no certainty over funding allocations for the medium term. 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 re-allocated away from Southampton, as well as a potential benefit should the Council gain from any changes.
- 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 £3.3M to the council’s budget in 2022/23.
- 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 2021 still not settled, and the rise in inflation adding to pressure for the 2022 pay settlement.
- 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. These pressures have been built into the budget and will continue to be reviewed.
- Of particular concern going forward is demand within Children’s Social Care, given the experience during 2021/22 of rising numbers of Children Looked After and the costs of residential care and additional agency staffing to cope with demand (see para 22 below).
- Changes pending to adult social care following the Government’s announcement in September 2021 on reforms including the policy of charging for care costs. The additional costs of implementing these social care reforms are unclear although early modelling suggests significant additional costs. Government has undertaken to support the changes with funding, but It remains unclear whether the funding available for market reforms will be sufficient.
- The process 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, the costs for 2022/23 and the longer term consequence and funding support remain unclear. • The adequacy of the provision made for inflationary costs, pay awards and also the potential for increases in interest rates which would impact on borrowing costs. However, the outlook for inflation over the short term is for a significant 'spike' of 6% around Spring as energy prices, amongst other costs, rise. This area will be kept under regular review for any potential adverse impact. • Price inflation and in particular energy costs with the trade body Energy UK warning gas and electricity bills could rise by up to 50% by springtime.
20.	The challenges ahead should not be under-estimated. Going into 2023/24, to ensure the Council operates within its financial envelope, it will need to cover an estimated budget shortfall of around £23.4M. This figure rests, inevitably, on a number of assumptions as set out in Annex 1.1 to Appendix 1. Given the highly uncertain environment under which council services are currently operating, and the uncertainty which arises over future funding of those services due to the economic impact from the pandemic, it cannot be ruled out that the predicted £23.4M shortfall will yet increase. At this level, the budget gap in 2023/24 represents 11.6% of the council's estimated funding. The Council had previously planned and agreed, as part of its budget strategy in February 2020, to draw down £4.8M from the MTFR reserve to support the budget in 2022/23. Added to this, in balancing the budget for 2022/23, £8.5M arising from a one-off surplus gain from the council's outturn for 2020/21 has been applied plus a further £1.7M funded from a number of one-off measures and underspends in the current year (2021/22) and which will be applied to 2022/23 via retaining within reserves to be applied next year. There has been no further net use of the council's Medium Term Financial Risk reserve when balancing the budget for 2022/23 over and above the previously agreed £4.8M drawdown. Reserves provide only a temporary alleviation of budget pressures, and several of the strains the council's budget faces are unsurprising given the effects of the pandemic, particularly with regard to Adults and Children's Social Care. However, the one-off nature of reserves serves to demonstrate the importance of revenue budgets being sustainable over the longer term rather than depending upon being supplemented by drawing on reserves. The longer term plans as reflected in the Council's Medium Term Financial Strategy begin to reflect an approach of addressing demand and cost pressures in key areas such as Children's Services. However, a critical task over the coming months will be strengthening and extending further these plans to create efficiencies and cost reductions that ensure future budgets are placed on a sustainable level. The council will also need to adapt its budget work and financial management to be more flexible and responsive. Work on budget savings will need to be viewed as a year round activity with managers encouraged to make this 'business as usual' whilst any major savings or those with policy implications agreed as needed during the year at Cabinet or Council as appropriate.
21.	Section 25 of the Local Government Act 2003 requires each Chief Financial Officer to report to their authority about the robustness of estimates and the adequacy of reserves when determining their budget and level of council tax. Each authority is required to consider their Chief Financial Officer's report when setting the level of council tax.

22.	As reported to Cabinet on 21 February 2022, at the end of quarter 3 the financial position was that the council's net General Fund position is projected at £8.2M deficit, though this can be met by applying £6.75M of the Social Care Demand Reserve in support of social care pressures and £1.45M of centrally held budgets. Within that overall position, Children's Social Care is estimated to be adverse by £6.0M by the end of 2021/22, with spending pressure arising primarily from the numbers and costs of Children Looked After, additional Agency staff for the high levels of demand and the costs of placements. This budgetary pressure has been a major factor behind the 2022/23 budget, with £9.8M additional budget included for Children's Social Care, with £4.5M included for savings. In future, it is expected that the investment made, which supports the plans made under 'Destination 2022' to reform and improve the service, will release savings as well as provide better outcomes for children. Plans included in the budget and Medium Term Financial Strategy also assume savings of £15.3M in 2023/24 within Children's Social Care.
23.	The general fund balance is planned to remain at its current level (£10.07M) and provides a safeguard against unexpected incidents and also potential overspending. At this level, it is regarded as an adequate.
24.	We hold reserves for different purposes. We have reserves that are ringfenced for specific purposes, reserves that are earmarked for specific initiatives that can be met by one-off sources of money and more general reserves to deal with the financial risks outlined in the previous section. It is this last category that will have an element of 'uncommitted' sums set aside for future risks or need. Given the Council is facing a very challenging financial future, it will be crucial that reserves, both general and earmarked, continue to be managed in the medium term in a way that gives due regard to the need to set a legally balanced annual budget whilst ensuring longer term stability and sustainability with council services. Reserves provide a safety net against a number of critical assumptions around funding, the non or late delivery of savings in 2022/23 and any legislative or accounting changes imposing new burdens. The Medium Term Financial Risk Reserve provides cover for this as well as helping manage the overall budget and providing a platform to manage financial challenges ahead. Given the current unprecedented challenges, and the many unknowns arising from the pandemic, it is even more important to hold this reserve at an adequate level as determined by the S151 Officer to provide a safety net for the authority and ensure stability of service and financial planning. A statement on reserves is provided in Annex 1.1(b) to the Medium Term Financial Strategy. By the end of 2021/22, total reserves are expected to be £77.55M. However, part of this is already committed to meet particular future liabilities or is already planned to be used. The sum available, when taking future expected commitments and liabilities into account, is around £32.65M, which is held within the Medium Term Financial Risk Reserve. In practice £1.92M of this is expected to help cover potential pressures on adult social care contracts, leaving £30.73M for all the risks identified above.
25.	An element of reserves was previously agreed to be utilised (£4.8M), at the February 2020 Council meeting, under the agreed strategy to support the budget which includes helping to 'smooth' the savings needed, allowing longer term plans to be made. Given the pandemic situation, and the uncertainty arising over future funding and spend due to the pandemic, reserves are an essential element of ensuring both service and financial resilience at this critical time.

26.	On savings, the 2022/23 budget is balanced via £10.87M of savings and other assumptions factored into budgets (see Appendix 1, paragraph 59 and Annex 1.6). Services have been actively working on their saving proposals for some time, and where not achieved in-year during 2022/23 the assumption will be mitigations can be found until the savings are realised, or equivalent sums found.
27.	Given the service pressures faced, as well as the other risks identified, the budget contains an uncommitted contingency level within centrally held funds of around £4.6M, which provides for added confidence when dealing with volatile budgets and uncertainty.
28.	The savings plans and assumptions made for the budget are not risk free. In the context of the proposed overall net budget of £193M, and the reserves and contingencies available, coupled with a good framework for monitoring and managing in-year budget pressures, the financial risk to the authority has mitigation and is an acceptable one. Should COVID-19 have further major waves impacting significantly on Southampton and other authorities, there is also a likelihood that Government would provide further additional funding.
29.	Financial procedures to monitor and report on the forecast position versus the budget are well ingrained across the authority and reporting occurs frequently to both senior management and formally to members (via a quarterly Cabinet report). However, it is recognised that on-going robust financial management, strict budgetary control and the on-going monitoring of both savings and investment delivery plans, with processes in place to promote these during the next year is necessary to ensure this budget is delivered. This will be done with a focus on 'risk management', with the most attention given to the most material and volatile areas of the budget. We will also continue to review our processes against the background of the CIPFA Financial Management Code, and where appropriate ensure we enhance our processes to continue to promote sound financial management.
30.	Circumstances around budget setting this year have once again been challenging; the continuing economic and social impacts of the COVID-19 pandemic, Brexit, economic uncertainty with supply chain issues, rising inflation coupled with no agreed 2021 pay award and uncertainty around the future of local government funding. The financial risks faced by local authorities have been highlighted in particular by the recent experiences of the London Borough of Croydon and also Nottingham City Council, emphasise the importance of prudence and financial resilience. This also highlights the importance of managing risk and the stewardship of ensuring contingency sums and reserves at an appropriate level, to adequately allow for risk. To address this, the main elements at the council's disposal are: • £32.6M unallocated corporate revenue reserves, • Contingency and inflation funds in the budget of £4.6M (uncommitted), • The General Fund Balance of £10.1M The council will also aim to be as responsive as possible to the current budget pressures by having a strong focus on reporting in-year budget review work. This will include realising any new savings opportunities. I am therefore content as the Council Chief Financial Officer that whilst risk can never be eliminated, the Council is operating prudently and with sufficient financial resilience to deal with risks highlighted within the budget report (John Harrison Executive Director for Finance, Commercialisation & S151 Officer).

	CIPFA Resilience Index
31.	The Chartered Institute of Public Finance and Accountancy (CIPFA) publish a 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.
32.	The Resilience Index for 2022 was published at the end of January. The latest data used in the index is that for 2020/21. The 2020/21 figures have been impacted by COVID-19 and this has had a particular impact on reserves, for example, by the carry-forward of COVID related government grants. It is therefore difficult to draw conclusions from the reserves indicators this year. Of particular note is that the City Council comes out at very high risk on the relative proportion we spend on social care compared to similar authorities and this is seen as a significant threat to our financial sustainability.
	CIPFA Financial Management Code
33.	CIPFA has introduced a Financial Management Code (FM Code) applicable from April 2021. This sets out the standards of what good financial management for local authorities should look like. The FM Code has been 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. Some notable cases such as Northamptonshire and Croydon have added to the need to ensure consistent standards apply.
34.	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 the full Council.
35.	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.
36.	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 d) to the Medium Term Financial Strategy. A report to the Governance Committee on the FM Code can be found at: Governance Committee 14 February 2022
	BUDGET CONSULTATION
37.	The Cabinet's draft budget proposals for 2022/23 were set out in the budget update report of 20 December 2021. 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 budget update report.
38.	An additional ESIA has been developed to consider the equality impacts of the proposal to increase heating charges for some tenants and the ESIA for the closure of St Mary's Leisure Centre has been updated. The Cumulative Impact Assessment has also been updated.
	Consultation on St Mary's Leisure Centre
39.	A public consultation concerning the discontinuation of leisure services at St Mary's Leisure Centre commenced in November 2021 and closed on 24 January 2022. There were 1,758 responses to the consultation. Details of feedback from the consultation and the future of the building is the subject of a separate report on the agenda for the Cabinet meeting on 21 February 2022.
	EQUALITY AND SAFETY IMPACT ASSESSMENTS
40.	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.
41.	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.
42.	Updated Individual Equality and Safety Impact Assessments (ESIAs) have been completed for those proposals contained within this report and as detailed in the report that they identified require such an assessment, as they could have an impact on a particular group or individuals. The final individual ESIAs are available in Members' Rooms.
43.	The individual ESIAs have been analysed to consider the cumulative impacts the budget proposals may have on particular groups and the mitigating actions that could be considered. In order to give the right perspective to the budget proposals, the Cumulative Impact Assessment has to be considered in light of the available information on the City's profile,

	service user and non-user information and staffing profiles as well as the proportion of the Council's budget that is currently spent on targeted groups or communities. The cumulative ESIA is available to view in the Members Rooms.
RESOURCE IMPLICATIONS	
Capital/Revenue	
44.	The capital and revenue implications are fully detailed within the report.
Property/Other	
45.	There are no specific property implications arising from this report other than the schemes already referred to within Appendix 2 and Appendix 3 of the report.
Staffing Implications	
46.	
LEGAL IMPLICATIONS	
47.	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.
48.	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.
49.	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.
50.	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 2022 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.
51.	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.
52.	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.
53.	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 being included alongside the budget and council tax setting report to both cabinet and full council in February.
54.	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.
55.	Further detailed legal considerations relating to the setting of a lawful budget are set out appendix 4, which Members are directed to have regard to in reaching their decision.
56.	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.
57.	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.
Other Legal Implications	
58.	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.
59.	Local authorities have a duty under the Human Rights Act 1998, when carrying out any function, not to act incompatibly with rights under the European Convention for the Protection of Fundamental Rights and Freedoms. In particular Article 2 the right to life shall be protected in law, Article 8, the right to respect for private and family life and Article 25 the rights of elderly to lead a life of dignity and independence and to participate in social and cultural life. In reaching a decision on the proposals contained in this report the Council must have regard to the provisions of the Equality Act 2010, in particular s.149, the Public sector equality duty. The duty provides that: (1) A public authority must, in the exercise of its functions, have due regard to the need to— (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

	(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it. Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to— (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic; (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it; (c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low. Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to— (a) tackle prejudice, and (b) promote understanding. The relevant protected characteristics are— • age; • disability; • gender reassignment; • pregnancy and maternity; • race; • religion or belief; • sex; • sexual orientation. Details of how the Council has approached and considered its duty under to Equalities Act 2010 are set out in the accompanying EISA's which Members must have regard to in reaching their decision.
RISK MANAGEMENT IMPLICATIONS	
60.	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.
61.	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 19 to 30.
POLICY FRAMEWORK IMPLICATIONS	
62.	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 2022/23 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.

KEY DECISION?	No	
WARDS/COMMUNITIES AFFECTED:	All	

SUPPORTING DOCUMENTATION

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

1.	The Revenue Budget 2022/23 and MTFS 2022/23 to 2025/26
2.	The Capital Strategy and General Fund Capital Programme 2021/22 to 2026/27
3.	HRA Revenue Budget 2022/23 and Capital Programme 2021/22 to 2026/27
4.	Statutory Power to Undertake Proposals in the Report
5.	HRA Capital Programme Scheme Details (Confidential)
6.	Refinancing (Confidential)

Documents In Members' Rooms

1.	Updated Equality and Safety Impact Assessments (ESIAs)
2.	Cumulative Impact Assessment

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:

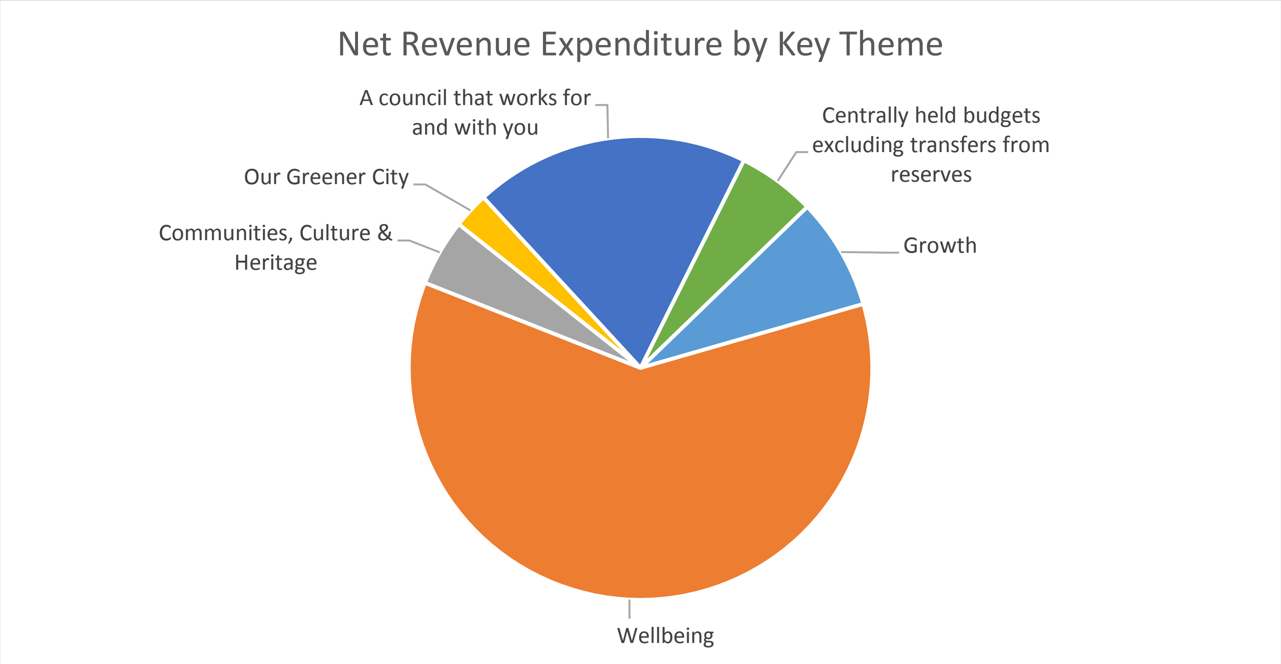
Title of Background Paper(s)		**Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)**
1.	Update on budget forecast for 2022/23 onwards and savings plans	
2.		

Budget Report - Table of Contents

Appendix 1

THE REVENUE BUDGET 2022/23 AND MEDIUM TERM FINANCIAL STRATEGY 2022/23 TO 2025/26	
	INTRODUCTION
1.	This report sets out how the budget for 2022/23 will be balanced whilst minimising the impact on front line services of the authority. The proposed net revenue budget for 2022/23 is £193.05M. This includes £16.03M of government grants relating to the Council's share of the estimated business rates deficit on the Collection Fund carried forward from 2021/22 via revenue reserves under accounting arrangements. Excluding the government business rates grants carried forward, the net revenue budget for 2022/23 would be £209.08M, compared with a current year budget adjusted similarly of £202.02M. The report also provides an update on the Medium Term Financial Strategy (MTFS) for the period to 2025/26.
2.	Both the 'core' council tax and adult social care precept are being frozen for 2022/23, forgoing an increase of up to 3 per cent which could have been applied without the need for a local referendum. Not applying a 3 per cent rise gives taxpayers a saving of just under £50 for a Band D charge.
3.	The government has provided £636M nationally in additional funds for adult and children's social care, as well as a new £822M grant for general responsibilities, although the latter is only guaranteed for one year. Adequate funding for all social care continues to be a major concern over the longer term given rising demand and costs.
4.	The Council is required to prepare a separate Capital Strategy, setting out a high-level, long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services. The Capital Strategy highlights the work being done to produce a comprehensive corporate asset management strategy. Details regarding the Council's Capital Strategy and Capital Programme are set out in Appendices 2 and 3 to the budget report. The revenue implications of the capital programme are built into the General Fund Medium Term Financial Strategy and the Housing Revenue Account Business Plan.
	STRATEGIC CONTEXT
	Autumn Budget and Spending Review 2021
5.	The government announced a 3-year spending review on 27 October 2021, the first multi-year settlement since 2015. From a local government perspective, key headlines were the announcement of £4.8Bn new grant funding (£1.6Bn each year over the next 3 years, with no increases in the 2nd and 3rd years at a national level) and £5.4Bn of funding for social care reform. For council tax increases, limits of 2 per cent for core council tax and 1 per cent for the adult social care precept would likely be set for each year of the spending review, above which local referendums would be required. The spending review was silent on reforms to the local government finance system.
6.	Further details of the spending review are provided in section 2.3.1 of the Medium Term Financial Strategy (Annex 1.1).
	Local Government Finance Settlement
7.	The provisional settlement was announced on 16 December 2021, providing detailed 2022/23 allocations at an individual local authority level of the resources announced in the spending review. Although the spending review covers a 3-year period up to 2024/25, the

	provisional settlement only provides detailed allocations for 1 year. The final settlement was confirmed on 7 February 2022, with minimal changes to the allocations announced in December.
8.	Nationally the settlement includes £636M additional Social Care Grant, £822M for a one-off Services Grant and a £70M inflationary uplift to Revenue Support Grant. Funding for the first stage of social care reform, £162M Market Sustainability Grant, was also announced.
9.	The settlement confirmed local authorities could apply an increase in core council tax of up to 2 per cent and an increase in the adult social care precept of up to 1 per cent for 2022/23 without the need for a local referendum. There is no indication as to whether there will be flexibility to carry forward any unused element of the 1 per cent adult social care precept into future years.
10.	The government announced its intention to begin work again in 2022 on reviewing how the local government finance system operates, including updating assessments of needs and resources, in consultation with the local government sector and other stakeholders. Any proposed changes could have consequences for the Council's grant funding in future years and on the level of business rates growth retained by the Council.
11.	Further details of the provisional settlement are provided in section 2.3.2 of the Medium Term Financial Strategy (Annex 1.1).
	Other national issues affecting the MTFS
12.	Responding to the COVID-19 pandemic has been the priority for both central and local government over the last 2 years and Southampton City Council has played a critical role in helping to lead the local response. The pandemic has had a significant financial impact on the Council, through additional costs, reduced income and savings that cannot be delivered. Although the government has provided additional grant funding towards costs and income losses in 2020/21 and 2021/22 this does not cover all of the costs and losses that the Council has faced. The financial effects of the pandemic will continue to be felt over the medium term, however the 2022/23 provisional settlement does not include any funding specifically towards COVID-19 budget pressures.
13.	Other issues affecting the MTFS include: • End of the transition period for exiting the European Union • Afghan Relocations and Assistance Programme • Net zero strategy and the green economy • Adult social care reform
14.	Further details are set out in section 2.2.2 of the Medium Term Financial Strategy (Annex 1.1).
	LOCAL CONTEXT
	Council Priorities
15.	The revenue budget and MTFS are integral to the delivery of the City Council Corporate Plan. The Plan sets out how we will achieve our vision of Southampton as a city of opportunity and has five key themes to deliver the strategic goals of an ambitious, more prosperous, healthy, happy and hopeful city, which are: • Growth • Wellbeing • Communities, Culture, & Heritage • Our Green City • A council that works for and with you

16.	The Council's budget setting process centres around these key themes to ensure resources are directed towards agreed priorities. Chart 1 below shows the £231.7M revised net revenue expenditure budget (excluding transfers from reserves) for 2021/22 broken down over key themes.
17.	Chart 1 – Net revenue expenditure (excluding transfers from reserves) by key theme 
	Legacy of Public Sector Spending Reductions
18.	The settlement funding assessment (SFA) is the Government's calculation of funding required by a local authority after allowing for income generated from council tax.
19.	Government measures to reduce public sector spending in the previous decade saw a significant reduction in the funding provided to local authorities. Between 2013/14 (when the current local government finance system was introduced) and 2019/20, the Council's SFA reduced by almost a half from £121.0M to £65.3M.
20.	The Council's SFA for 2022/23 has increased by only £0.3M compared to 2021/22 in the local government finance settlement, as the bulk of the additional resources announced in the spending review have been allocated through specific grants, some of which are one-off. Taken together with the £1.1M combined uplift for the previous 2 years, this only equates to a £1.4M increase compared to the £55.7M reduction over the previous 6 years.
21.	Core Spending Power (CSP) is the Government's measure of resources available to local authorities to fund services delivery, taking into account the SFA, certain government grants and council tax.
22.	The Council's CSP for 2022/23 is still not back to the level it was in 2010/11. In real terms the Council has seen a 24.6% reduction in resources since 2010.
23.	Further details are provided in sections 1.1.1 and 1.1.2 of the Medium Term Financial Strategy (Annex 1.1).
	Savings History
24.	Southampton City Council has agreed savings worth over £169.9M in its budget from 2012/13 to 2021/22 and including any step-up in amounts for future years, which has been a necessary part of achieving a balanced budget. More details are included in section 1.1.3 of the Medium Term Financial Strategy (Annex 1.1).

	2021/22 General Fund Revenue Forecast Outturn
25.	The 2021/22 forecast outturn for the General Revenue Fund is a deficit of £9.99M on net revenue expenditure, offset by a surplus on financing of £1.78M, leaving a net deficit of £8.20M. Of this, £7.48M relates to 'business as usual' activities and £0.72M to COVID-19. It is planned to meet the forecast deficit from the Social Care Demand Reserve (£6.75M) and centrally held budgets (£1.45M).
26.	The major share of the adverse position within net revenue expenditure is attributable to Children's Social Care, which has a forecast deficit on 'business as usual' activities of £6.30M, mainly relating to Looked After Children Provision.
27.	Further details on the forecast outturn position for 2021/22 are included within the report on the Financial Monitoring for the period to the end of December 2021 to be considered by Cabinet at its meeting on the 21 February 2022.This latest position has been taken into consideration in updating the Medium Term Financial Strategy.
	2021/22 Collection Fund Forecast Outturn
28.	Southampton City Council's share of the forecast surplus to be carried forward on the Collection Fund after applying government grant for business rates reliefs is £5.41M. This comprises a £2.25M surplus for Council Tax and a £3.16M surplus (after grant) for business rates. The surplus arises from an improved outturn for 2020/21 compared with the estimate used in setting the budget in February 2021 and an improved in-year position. Further details are included within the Financial Monitoring for the period to the end of December 2021 report to be considered by Cabinet at its meeting on the 21 February 2022.
29.	There is a timing difference between receiving government grant funding for COVID-19 related business rate reliefs and when the deficit caused by those reliefs is to be recovered from the General Fund. In practice, the government grant received in 2021/22 will need to be carried forward via reserves to offset the deficit being met from the General Fund in 2022/23.
30.	The government made regulations in 2020 to require, by exception, 2020/21 in-year deficits to be spread over 3 years. Consequently, £2.4M of the Council's share of the estimated deficit for 2020/21 is being carried forward to be met in 2022/23 and 2023/24, £1.2M in each year. This was factored into the Medium Term Financial Forecast agreed in February 2021.
	MEDIUM TERM FINANCIAL STRATEGY AND GENERAL FUND BUDGET
31.	The Medium Term Financial Strategy (MTFS) provides a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the Council's priorities.
32.	There are 6 key aims: • To provide financial parameters within which budget and service planning should take place; • To ensure the Council sets a balanced budget; • To focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources. Ensuring services are defined on the basis of a clear alignment between priority and affordability; • To ensure the Council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area and where ring-fenced government funding is reduced the service area takes action to reduce expenditure accordingly;

	• To plan the level of fees, charges and taxation in line with levels that the Council regard as being necessary, acceptable and affordable to meet the Council's aims, objectives, policies and priorities whilst gradually reducing the Council's reliance on Central Government funding; and • To ensure that the Council's long term financial health and viability remain sound.
33.	The MTFS goes up to the financial year 2025/26 however, given local government funding allocations have only been provided for 1 year and uncertainty around local government finance system reforms, the impact of social care reform and the continuing effects of the pandemic, the future years are only indicative at this stage.
	Update on budget for 2022/23 at December 2021
34.	A report providing an update on the budget forecast for 2022/23 onwards was presented to Cabinet in December 2021.
35.	The report outlined budget allocations over the medium term for new commitments agreed at Full Council in July 2021, budget pressures being faced by the Council and set out draft proposals and measures to help mitigate the forecast budget shortfall. The proposals within the report did not achieve a balanced budget for 2022/23, with a shortfall of £9.01M still to be addressed. The report is available as agenda item 10 at: Agenda for Cabinet on Monday, 20th December, 2021, 6.00 pm | Southampton City Council
36.	A summary of the proposals put forward in December is provided in Table 1 below.

Table 1 – General Fund Revised Budget Shortfall at December 2021

	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M
Forecast Budget Shortfall as at February 2021	**22.52**	**27.31**	**26.57**	**26.57**
New Commitments	4.93	4.53	4.44	4.50
Council Tax and Business Rates	(13.38)	(6.82)	(6.79)	(11.58)
Use of Reserves	(5.41)			
Inflation		2.51	2.52	7.62
Budget Pressures	10.44	11.70	12.54	13.27
Draft Savings Proposals	(10.10)	(13.96)	(14.46)	(14.62)
Updated Forecast Budget Shortfall as at December 2021	**9.01**	**25.27**	**24.82**	**25.76**

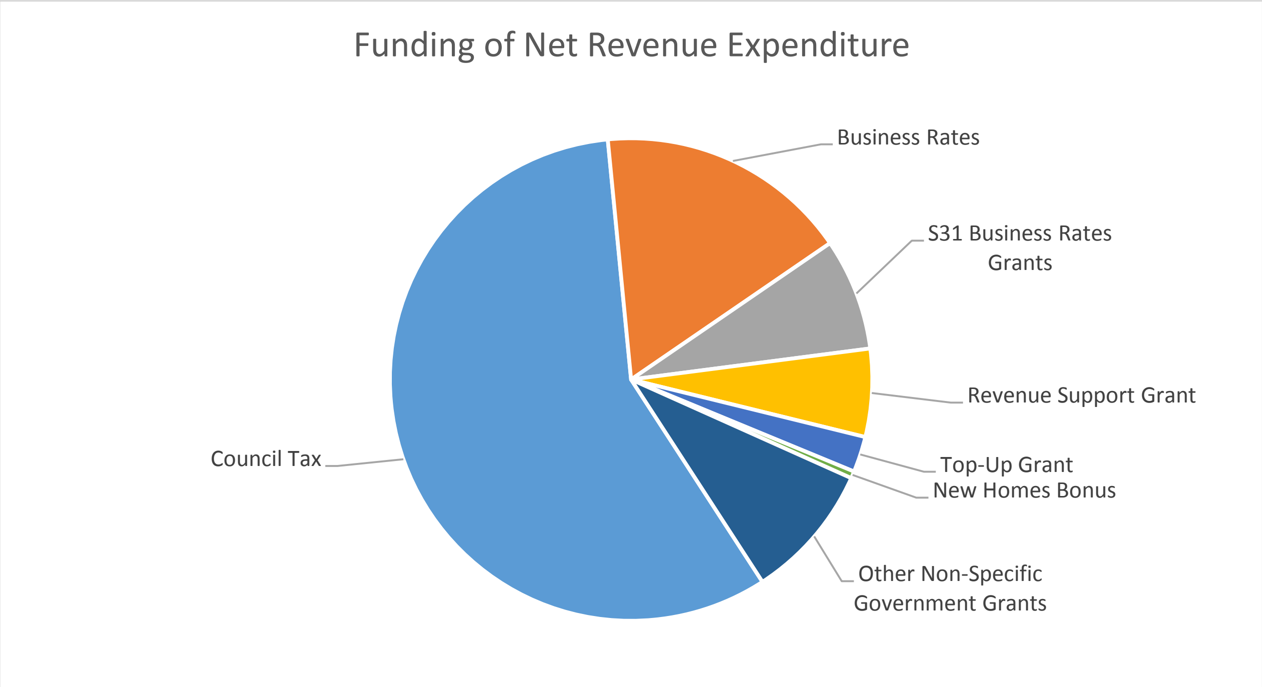
NB Numbers are rounded

	Updated Medium Term Forecast
37.	The budget forecast update report on 20 December 2021 showed a shortfall of £9.01M for 2022/23 and a budget gap of around £25M a year for the remainder of the medium term. However, at the time the report was published the provisional local government finance for 2022/23 had not been announced and measures to address the budget shortfalls were still being pursued. A full update of the Medium Term Financial Strategy is provided as part of this report (Annex 1.1) and the following sections provide an update on the Council's resources, together with updated budget proposals and the outlook over the medium term.

	Council Resources
	Council Tax
38.	The draft budget proposes a freeze in both the 'core' council tax and adult social care precept for 2022/23, which means that the overall charge for the Southampton City Council element of the council tax will stay at £1,644.39 for a Band D household. The charge would have increased by £49.23 for the year if the full 3 per cent flexibility allowable without a local referendum had been applied, with £3.2M income per annum foregone by not applying the maximum increase. The full calculation is set out in Annex 1.2, which shows the council tax requirement for 2022/23 is £108.8M. Additional charges will be made by the Police and Fire authorities as set out in Annex 1.3.
39.	The tax base has been calculated at 66,146 (Band D equivalents) for 2022/23, which represents an increase of 2.7 per cent on the tax base applied in 2021/22 (an increase of around £2.9M in council tax income). The increase stems from a rise in the estimated number of chargeable properties, a reduction in the estimated number of working age local council tax support claimants and an increase in the estimated collection rate.
40.	For planning purposes only, the MTFS includes the working assumption that the 'core' council tax charge will increase by 1.99 per cent each year from 2023/24. No increase in the adult social care precept has been assumed for future years.
	Business Rates
41.	Under the Business Rates Retention Scheme the Council will retain 49 per cent of the business rates collected locally, with 1 per cent going to the Hampshire and Isle of Wight Fire & Rescue Authority and 50 per cent to central government. The Council's estimated share of business rates income (excluding government grant in lieu of rates) for 2022/23 is £44.7M. A freeze in the business rates multiplier for a second year running and an extension of rate relief measures for the retail, hospitality and leisure sectors, as announced in the Spending Review 2021, will be funded by government grant.
42.	The business rates income estimates included in the MTFS assume some business rates growth, based on an assessment of new commercial developments that are already in the pipeline. The estimates also include assumptions about the level of empty property relief and provisions required for rateable value appeals.
43.	Solent Freeport The Final Business Case for the Solent Freeport is expected to be submitted in March 2022. Most or all of any growth in business rates in the designated tax sites across the Solent (including Redbridge with Southampton) is expected to be pooled for use as agreed by the Freeport and is not included in the MTFS. It is expected that each participant authority will continue to receive the existing level of business rates within the tax sites via a 'baseline' starting position that will remain as paid to each council, as now.
	Government Grants
44.	Revenue Support Grant Following years of reductions due to austerity measures up to 2019/20, Revenue Support Grant (RSG) has seen 3 years of small inflationary uplifts. For 2022/23 the inflationary uplift

	applied is £0.3M, taking RSG to £11.4M. However, this compares with an RSG allocation of £72.7M when the current funding system was first introduced in 2013/14.
45.	<u>New Homes Bonus</u> 2022/23 was expected to be the final year of the current New Homes Bonus scheme, however the government has rolled it over for a further year, with the Council's allocation (including final legacy payment for 2019/20) being £0.9M. The government consulted in early 2021 on the future approach to rewarding housing growth, however new proposals have yet to be forthcoming.
46.	<u>Other Grants</u> The Council's share of the one-off 2022/23 Services Grant announced in the provisional local government finance settlement is £3.8M. The government confirmed this grant includes funding for the increase in employer National Insurance Contributions, so the net benefit to the Council is estimated to be £2.7M. Further government funding has been given for social care and the Council's allocation of Social Care Grant has increase by £3.1M to £11.5M. The Council received an allocation of £0.7M Market Sustainability Grant for the first stage of funding for social care reform to support market equalisation. Overall, the net increase in grant funding for 2022/23 compared to the assumptions in the budget update report to Cabinet in December 2021 is £6.4M, however this reduces to £2.3M for future years as one-off grants fall out. Further details on government grants is provided in section 1.2.3 of the Medium Term Financial Strategy (Annex 1.1) and a schedule of key grants received by the Council is included at Annex 1.4.
47.	£2.8M un-ringfenced Local Council Tax Support Grant received in 2021/22 is being carried forward via reserves to be used in 2022/23 as a one-off measure to help offset the income foregone from freezing the Council's element of the council tax charge. In 2020/21 the Council received Council Tax Hardship Fund grant to provide a ring-fenced and targeted £150 reduction for those in receipt of council tax support. Using this £2.8M grant to supplement the budget in 2022/23 helps balance the council's budget whilst all residents benefit from the freeze applied to council tax.
48.	Chart 2 below shows how the Council's 2022/23 Net General Fund Budget of £193.05M is funded from council tax, business rates and government grants. Council tax revenue is the single most significant portion of council funding.

49.	Chart 2 Funding of 2022/23 Net General Fund Budget



Executive Commitments

50. Table 2 below summarises the new commitments agreed by Full Council for the new priorities of the incoming Administration. Details of the new commitments are provided in Annex 1.5.

51. Table 2 – Summary of Executive Commitments

Key Theme	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M
Growth	0.45	0.15	0.05	0.05
Wellbeing	0.15	0.15	0.15	0.15
Communities, Culture & Heritage	0.64	0.29	0.29	0.29
Our Greener City	0.30	0.30	0.30	0.30
A council that works for and with you	0.57	0.05	0.00	0.00
Centrally held budgets and funding	2.83	3.59	3.65	3.71
Total Commitments	**4.93**	**4.53**	**4.44**	**4.50**

Numbers are rounded

52. At its meeting in March 2021, Full Council approved funding for the City of Culture over the period 2022/23 to 2026/27, should Southampton be awarded the title City of Culture for 2025. This funding is not included in Table 2 above. Southampton has been selected as one of the eight successful locations chosen to move to the next stage of the bidding process. The final outcome is expected to be announced in May 2022.

Budget Pressures

53. The budget forecast update report to Cabinet in December 2021 set out budget pressures totalling £10.4M in 2022/23, rising to £13.3M in 2025/26, mainly within social care. Table 3 below sets out the updated position. Reserve funding is being used to meet specific budget pressures in 2022/23 as set out in the table.

54. Table 3 – Summary of Budget Pressures

Key Theme	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M
Growth	1.28	1.22	1.10	1.05
Wellbeing	11.43	14.32	14.80	15.51
Communities, Culture & Heritage	0.10	0.10	0.10	0.10
Our Greener City	0.00	0.00	0.00	0.00
A council that works for and with you	2.03	1.37	1.35	1.35
Centrally held budgets and funding	0.00	0.00	0.00	0.00
Total Budget Pressures	**14.83**	**17.01**	**17.35**	**18.01**
Less: Use of Medium Term Financial Risk Reserve to meet Social Care pressures	(3.71)			
Total Net Budget Pressures	**11.12**	**17.01**	**17.35**	**18.01**

Numbers are rounded

55. Details of the final budget pressures are provided in Annex 1.6.

Savings

56. Draft savings proposals totalling £10.1M for 2022/23, rising to £14.6M in 2025/26, were published as part of the budget forecast update to Cabinet in December 2021. Full details can be found in appendix 4 to that report which is available as agenda item 10 at:

Agenda for Cabinet on Monday, 20th December, 2021, 6.00 pm | Southampton City Council

57. The Council's approach continues to be on driving through efficiencies and cost reductions, together with delivering savings through income generation and growth with a view to protecting front line services and Council priorities.

58. Further work has been on-going to refine the savings proposals published in December 2021. Table 4 below gives a summary of the updated position, with details of the final savings proposals included at Annex 1.7.

59. Table 4 – Summary of Savings Proposals

Key Theme	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M
Growth	(1.67)	(1.41)	(1.75)	(1.82)
Wellbeing	(5.13)	(16.42)	(17.99)	(18.49)
Communities, Culture & Heritage	(0.64)	(0.64)	(0.64)	(0.64)
Our Greener City	(0.32)	(0.47)	(0.47)	(0.47)
A council that works for and with you	(1.32)	(1.32)	(1.32)	(1.32)
Centrally held budgets and funding	(1.78)	(1.05)	(0.78)	(0.78)
Total Savings	**(10.87)**	**(21.31)**	**(22.96)**	**(23.52)**

Numbers are rounded

60. It should be noted that the proposed saving relating to St Mary's Leisure Centre is subject to the outcome of a consultation on the proposal and a final decision. If the proposal does not proceed it will be removed from the budget and the relevant Executive Director will discuss a way forward with the Executive Director for Finance, Commercialisation & S151 Officer.

Other MTFS Amendments

61. Inflation

	£1.8M has been allocated from the central inflationary pressures budget for 2022/23 for inflation on contracts. No allocation has been made for 2022/23 pay awards, pending settlement of the 2021/22 pay awards and further details for 2022/23, however £2.7M (2.5 per cent) has been allowed for within the budget. £1.1M has been earmarked for the 1.25 per cent increase in the employer's national insurance contribution rate from 2022/23 - the Health and Social Care Levy announced in September 2021. The central inflationary pressures budget has been topped-up by £3.0M in 2022/23, rising to £12.2M in 2025/26, to provide sufficient cover for these allocations and likely calls on the budget.
	Capital Asset Management
62.	Capital financing costs are met from the Capital Asset Management budget held centrally within the Council. Estimates have been updated in line with the latest capital programme detailed in Appendix 2 of this report. Further details regarding capital financing assumptions are included in the Treasury Management Strategy and Prudential Limits report to Governance Committee on 14 February 2022.
63.	Interest rate forecasts will continue to be monitored and their impact on major projects and the capital programme kept under scrutiny.
	Balances and Earmarked Reserves
64.	The current General Fund Balance of £10.1M is considered to be appropriate to cover for unforeseen events and financial risks not provided for elsewhere.
65.	A review of useable reserves has been undertaken as part of the budget planning process and an element of the uncommitted amount has been factored in to the MTFS to help offset the budget shortfall in 2022/23. Earmarked reserves (excluding schools' balances) are projected to reduce from £130.38M (including £35.04M revenue grants carried forward mainly relating to COVID-19) at the start of 2021/22 to £45.77M by the end of 2025/26.These figures exclude a deficit on the Dedicated Schools Grant being held in a separate account in accordance with regulations, which is forecast to be £9.8M at the end of 2021/22. If the deficit is not reduced by the end of 2022/23 or if the period for which it is to be held separately is not extended, the deficit will fall to be included within earmarked reserves from 2023/24.
66.	Table 5 summarises the net use of corporate reserves included within the 2022/23 budget proposals. This includes the net contribution from reserves agreed in previous years.
67.	Table 5 – Use of Corporate Reserves

	2022/23 £M
Net contribution from reserves agreed in previous years	(4.80)
New net use of reserves (excluding Collection Fund timing differences)	(13.41)
New net use of reserves for Collection Fund timing differences	(13.66)
Sub-total new net contribution from reserves	(27.07)
Net contribution from reserves	**(31.87)**

Numbers are rounded

68.	Further details on the forecast reserves balances and use of corporate reserves are provided in section 1.5 of the Medium Term Financial Strategy (Annex 1.1).

	Updated Medium Term Financial Strategy
69.	Table 6 below summarises the changes since the position reported to Cabinet in December 2021. Further details of the movements in the budget shortfall since December, including details of additional pressures and savings, are provided in Annex 1.8.
70.	Table 6 – Summary of Changes

	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M
Budget Shortfall – December 2021	**9.01**	**25.27**	**24.82**	**25.76**
Budget pressures	4.40	5.31	4.81	4.75
Savings proposals	(0.77)	(7.35)	(8.50)	(8.90)
Inflation estimates	2.98	4.33	4.45	4.56
Use of reserves – Collection Fund timing differences	(16.03)			
Use of reserves – remainder of £8.6M 2020/21 outturn surplus	(6.79)			
Use of reserves - other	(0.40)			
Government grants	(7.90)	(3.87)	(3.88)	(3.79)
Council tax and business rates estimates	15.50	(0.25)	(0.24)	(0.44)
Amended Budget Shortfall – February 2022	**0.00**	**23.43**	**21.46**	**21.95**

Numbers are rounded

71.	The updated position over the period of the MTFS shows forecast net expenditure being around £23.4M a year more than the forecast funding available in 2023/24 and around £22M thereafter, as set out in table 7.
72.	Table 7 – Forecast Budget Shortfall

	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M
Net Expenditure	193.05	225.10	228.63	233.95
Funding	(193.05)	(201.67)	(207.17)	(212.00)
Forecast Budget Shortfall	**0.00**	**23.43**	**21.46**	**21.95**

73.	For 2023/24 onwards, the medium term forecast does not include anything for government reward for housing growth, Revenue Support Grant is assumed to be a flat cash allocation and the one-off 2022/23 Services Grant is assumed not to be replaced pending any changes to the local government finance system. If any of these assumptions are more favourable than anticipated this would reduce the budget shortfall. Conversely, there are downside risks to the medium term forecast as set out in section 1.9 of the Medium Term Financial Strategy (Annex 1.1). No allowance has been made for any new use of uncommitted reserves to help offset budget shortfalls in future years, although any such use would be one-off in nature and further action would need to be taken to replace one-off reserves funding with sustainable measures. Reserves are also important in providing cover for risks and for facilitating service transformation.
74.	Annex 1.1(a) to the Medium Term Financial Strategy (Annex 1.1) sets out the 2022/23 budget and projections for 2023/24, 2024/25 and 2025/26 by key themes, centrally held budgets and sources of funding.

75.	The Council will continue to keep the MTFS under review, given the high degree of uncertainty surrounding any potential impacts from the ongoing pandemic, Brexit and possible service pressures.
	Summary and Outlook
76.	The 2022/23 budget addresses the budget pressures the council faces, protecting services and investing in line with the agreed Corporate Plan priorities. The 2022/23 budget includes: • £14.8M of additional investment on service pressures and investment to ensure services can continue to meet demand, improve outcomes and are better placed to manage demand in the future. • £4.9M for executive commitments to support priorities as set out in the Corporate Plan. • £10.9M of savings measures to balance the budget. • Draws on reserves to support the budget. Plans previously agreed provided for a £4.8M use of the Medium Term Financial Risk Reserve (MTFR). In addition to that, £8.5M of surplus arising from an underspend in 2020/21 has been applied to balancing the budget via the MTFR reserve. There is a remaining draw down from the MTFR reserve of around £1.7M, which reflects a number of factors in support of the budget, the main element of which is sums carried forward from earlier years. • Delivers a council tax freeze, which represents a saving of just under £50 for residents in a typical Band D property.
77.	The budget is only balanced for one year, with forecasts showing a £23.4M shortfall for 2023/24, and a similar level shortfall thereafter. This report has noted the continued uncertainty on future costs, arising from the pandemic but also from other factors such as rising demand and uncertainty over inflationary pressures and pay award costs. Funding also remains uncertain, with a one-year only settlement from Government, changes to the funding system pending from Government and potential longer term effects from the pandemic on funding from business rates and council tax. There are also opportunities arising from developments in the city and the proposed Solent Freeport. However, the budget shortfall of £23.4M represent a major gap and will require considerable work and focus during the rest of 2022 to achieve a balanced budget for 2023/24. Whilst the council is not alone in facing this size of financial challenges, or the risks outlined in this report, it does not lessen the scale of the challenge to be met. It is anticipated that there will be a mix of approaches across the MTFS timeframe, with different lead in times, for actions spanning a number of years to ensure this challenge can be met.

Annexes	
1.	Medium Term Financial Strategy
2.	2022/23 Council Tax Calculation
3.	2022/23 Council Tax Collection Fund Estimates
4.	Government Grants
5.	Executive Commitments
6.	Budget Pressures

7.	Savings Proposals
8.	Movements in Budget Shortfall

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Southampton City Council

MEDIUM TERM FINANCIAL STRATEGY

2022/23 – 2025/26

MEDIUM TERM FINANCIAL STRATEGY 2022/23 – 2025/26

Contents

INTRODUCTION

The Medium Term Financial Strategy (MTFS) provides a strategic financial framework and a forward looking approach to achieve long term financial sustainability for the Council. It is central to the delivery of the Council's priorities in an affordable and sustainable way over the medium term. It aids robust and methodical planning as it forecasts the Council's financial position, taking into account known pressures, major issues affecting the Council's finances, including external economic influences as well as local priorities and factors.

It helps the Council to respond, in a considered manner, to pressures and changes as a result of many internal and external influences. This is particularly important during a period when the Council faces considerable pressures and challenges, such as those relating to the continuing impact of the COVID-19 pandemic and increased demand for social care. The MTFS recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management and delivery of services. The approach concentrates on the principles that will provide a strong direction for the medium term.

The key overriding aim of the MTFS is therefore:

> *To provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the Council's key strategic priorities and sustainable services.*

The 6 key objectives of the MTFS are to:

- Provide financial parameters within which budget and service planning should take place;
- Ensure that the Council sets a balanced and sustainable budget;
- Focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources. Ensuring services are defined on the basis of clear alignment between priority and affordability;
- Ensure that the Council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area and where ring-fenced government funding is reduced the service area takes action to reduce expenditure accordingly;
- Plan the level of fees, charges and taxation in line with levels that the Council regard as being necessary, acceptable and affordable to meet the Council's aims, objectives, policies and priorities whilst gradually reducing the Council's reliance on Central Government funding; and
- Ensure that the Council's long term financial health and viability remain sound.

The MTFS enables integrated service and financial planning over the medium term, using a business planning approach. The resulting Medium Term Financial Model provides the framework within which decisions relating to future service provision can be made. The detailed budget, taking account of constantly changing circumstances, will continue to be kept under review over the period and the Council will need to set the level of council tax on an annual basis.

The Council's budget setting process centres around the key themes 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 priority areas. During the 2022/23 budget process, emphasis has been given to achieving growth, income generation and efficiency savings to help address the budget shortfalls the Council faces, to minimise the impact on front line services. It is expected that this approach will continue.

Although the Government published a 3-year Spending Review for 2022/23 to 2024/25, the Local Government Finance Settlement only covers 2022/23. Work on reforming the local government finance system will begin again in 2022 and this will have consequences for the Council's grant funding in future years. It is also unclear what the impact of the business rates revaluation scheduled for 2023 will be. Added to this is the uncertainty around the impact of Social Care Reform and the continuing effects of the COVID-19 pandemic. For these reasons the future years' position within this MTFS is only indicative at this stage.

SECTION 1. **Local Financial Forecast**

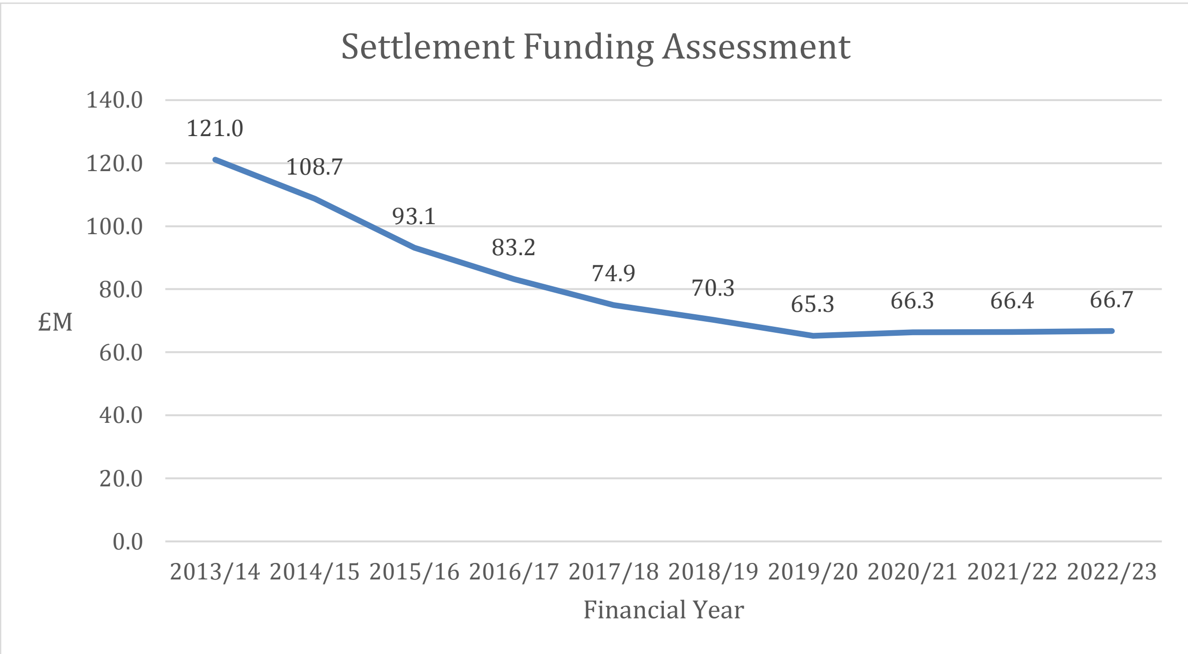
1.1 Financial Trends

1.1.1 Settlement Funding Assessment

The settlement funding assessment is the Government's measure of funding required by a local authority to meet net revenue expenditure after allowing for income generated from council tax. It is used to distribute revenue support grant to local authorities. In line with the Government's plans in the previous decade to reduce public sector spending, the settlement funding assessment was reduced over a number of years to 2019/20, and hence the amount of revenue support grant distributed to local authorities. For 2022/23 there has been an inflationary increase in the SFA, with additional resources announced in the 2021 Spending Review being allocated via specific grants rather than being applied to the SFA. The inflationary uplifts applied for the last 3 years don't go very far in restoring the reductions in funding made in previous years.

The chart below shows the settlement funding assessment for the Council since 2013/14 when the current local government finance system was introduced.

CHART: SETTLEMENT FUNDING ASSESSMENT

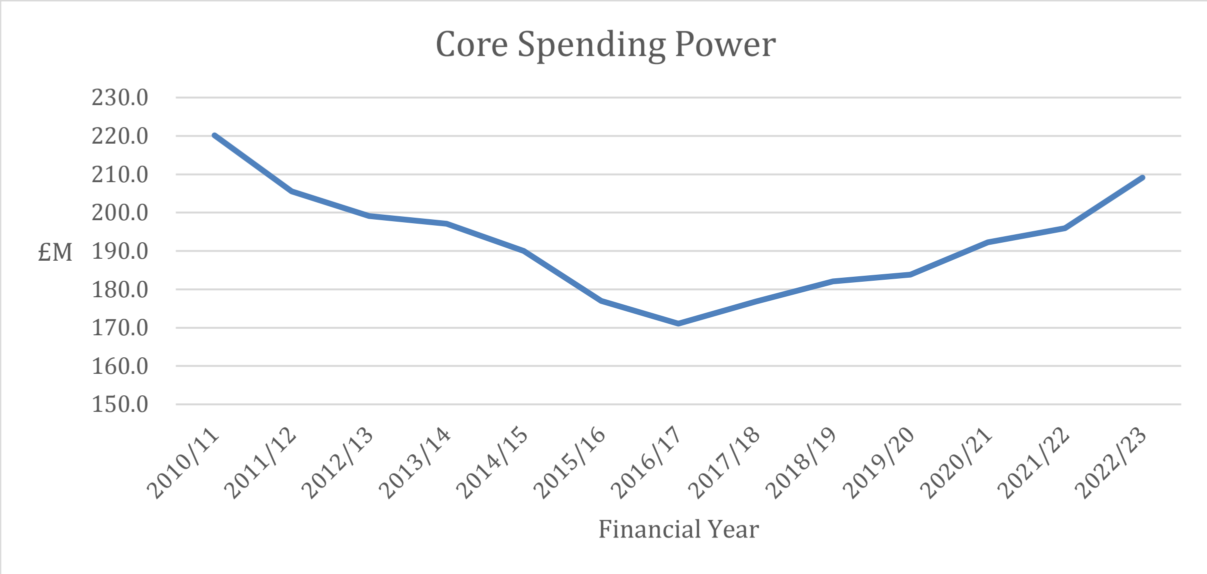


1.1.2 Core Spending Power

Core Spending Power Is the government's measure of resources available to local authorities to fund service delivery, taking into account the Settlement Funding Assessment, certain government grants and council tax.

The chart below shows Core Spending Power for the Council since 2010. Previous years have been adjusted so that they are on a comparable basis. This shows that although the resources available to the Council have increased in recent years, the resources available in 2022/23 are still not back to the level they were in 2010/11. In real terms the Council has seen a 24.6% reduction in resources since 2010.

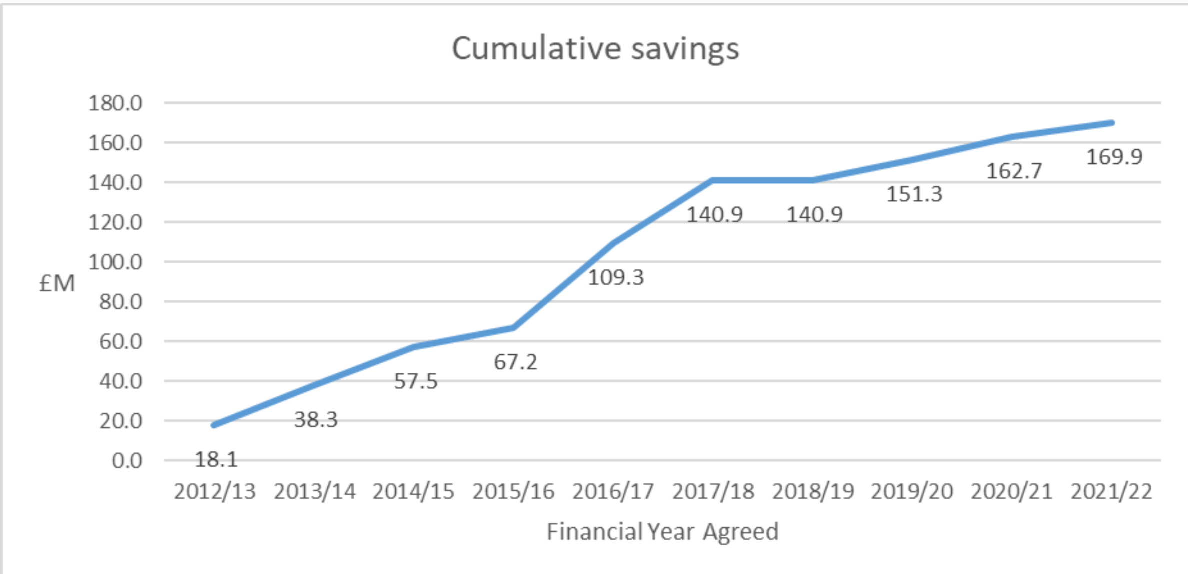
CHART: CORE SPENDING POWER



1.1.3 Savings History

In response to Government funding reductions and service expenditure pressures, the council has agreed some £170M of General Fund savings over the last 10 years (see following chart). This level of reduction represents around three-quarters of the level of the 2021/22 net council revenue budget (excluding transfers from reserves).

CHART: SAVINGS HISTORY



Sustaining the level of savings required to achieve a balanced budget is becoming increasingly difficult. The Council had sought to change emphasis by generating growth via income to offset funding reductions and budget pressures, as well as deliver efficiency savings, rather than make service reductions.

1.2 COUNCIL RESOURCES

The table below summarises the Council's key funding assumptions for the Medium Term Financial Strategy. Percentages indicate forecast year-on-year changes.

TABLE 1 SUMMARY OF KEY FUNDING ASSUMPTIONS

Item	2022/23	2023/24	2024/25	2025/26
Increase in Council Tax	0.00%	1.99%	1.99%	1.99%
Increase in Adult Social Care Precept	0.00%	0.00%	0.00%	0.00%
Council Tax Base (No. of Band D equivalents)	66,146	66,417	66,824	67,495
Increase in Small Business Rates Multiplier	0.0%	4.0%	2.6%	2.1%
Increase in Revenue Support Grant	3.1%	0.0%	0.0%	0.0%
Reduction in New Homes Bonus	-39.6%	-100.0%	0.0%	0.0%

1.2.1 Council Tax and Adult Social Care Precept

As set out in Table 1 above, the assumption is that the council tax charge (both 'core' council tax and the adult social care precept) will be frozen for 2022/23, with the band D council tax remaining at £1,644.39. For planning purposes, the working assumption for future years is a 1.99% increase in the core council tax. No increase in the adult social care precept has been assumed for future years.

In the local government finance settlement local authorities were given the ability to apply an increase in core council tax of up to 2% and an increase in the adult social care precept of up to 1% for 2022/23 without the need for a local referendum. There is no indication as to whether there will be flexibility to carry forward any unused element of the 1% adult social care precept into future years. £3.2M of council tax income per annum Is foregone by not applying the maximum increases available within the referendum limits.

The council tax base that has been assumed for each financial year is detailed in Table 1. The tax base for future years includes assumptions about growth in the number of residential properties, a gradual reduction in the number of local council tax support claimants (LCTS) and an increase in the estimated collection rate. The increase in number of LCTS claimants due to the pandemic has not been as high as had been anticipated in setting the 2021/22 tax base, hence there is a 'bounce back' effect in 2022/23 as shown in the chart below.

CHART: CHANGE IN COUNCIL TAX BASE

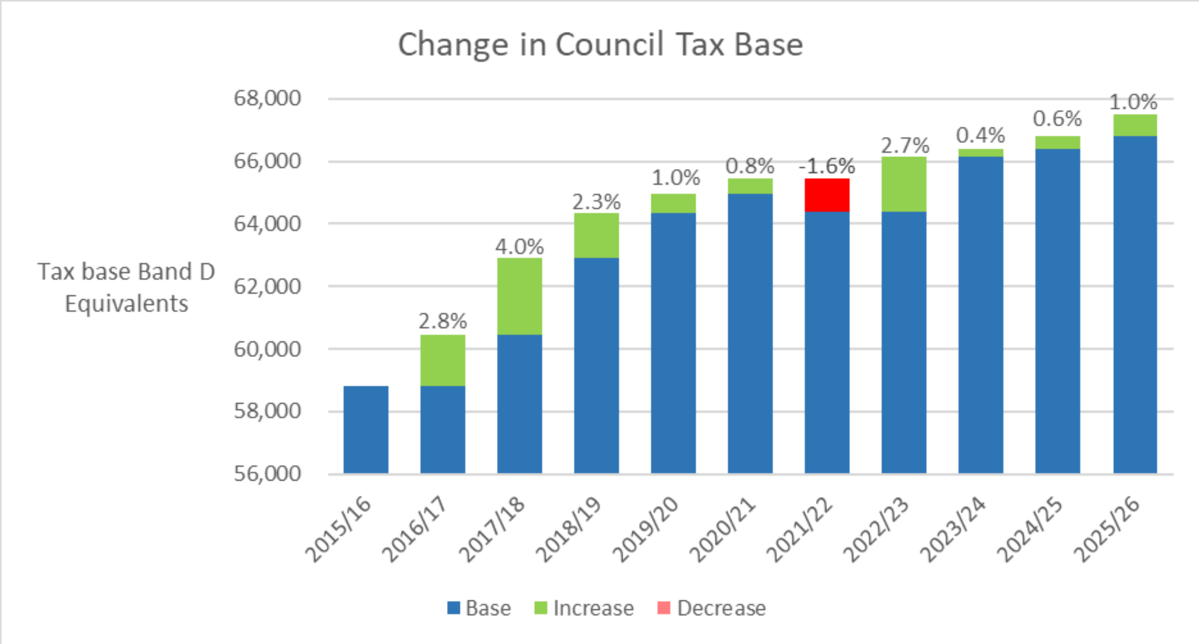


Table 2 below shows the council tax and adult social care precept income that has been included in the medium term financial forecast at Annex 1.1(a).

TABLE 2 COUNCIL TAX INCOME

	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M
Council Tax - General Precept	96.45	99.01	101.85	105.17
Council Tax - Adult Social Care Precept	12.32	12.37	12.45	12.58
Total Council Tax Income	**108.77**	**111.39**	**114.30**	**117.75**

1.2.2 Business Rates

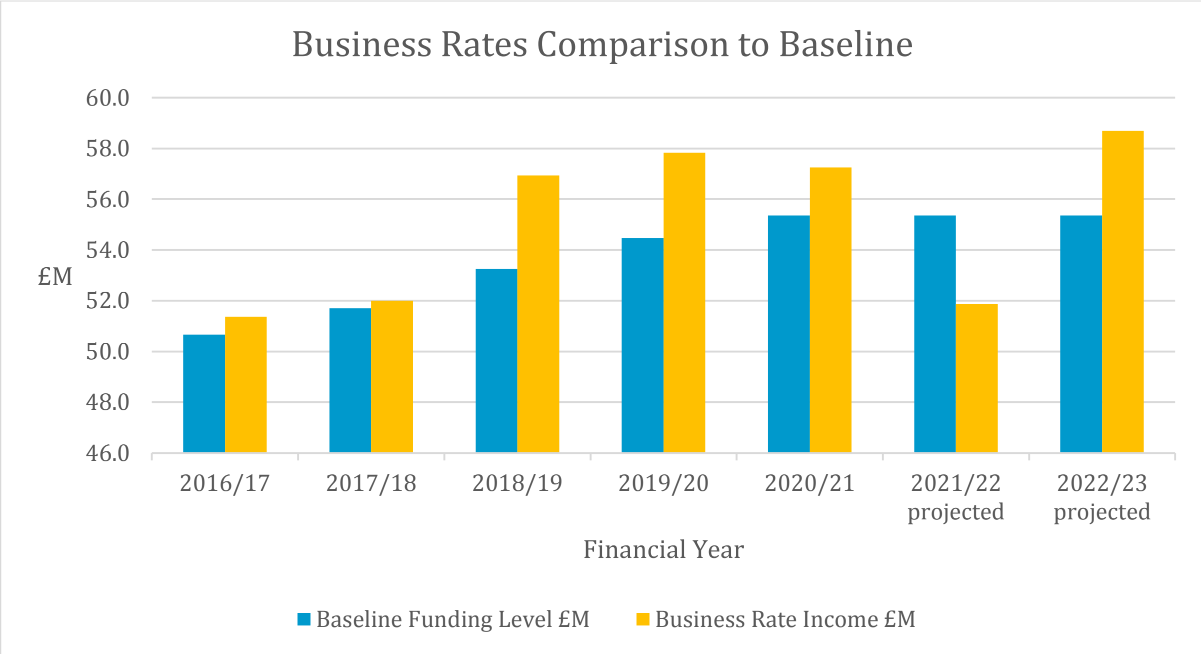
Under the Government's funding arrangements for local authorities the business rate retention scheme means councils retain a proportion of their business rates, including growth, but also take the risk of reductions in business rates during times of recession, although there are 'safety net' arrangements in place to protect against very large reductions. Local authorities are compensated by way of S31 grant for reductions to business rates arising from changes in Government policy since the retention scheme was introduced e.g. additional reliefs and a lower uplift or freezing of the business rates multiplier.

The government has frozen the business rates multiplier for a second year running for 2022/23. The MTFS assumes that it will increase with inflation thereafter as set out in Table 1 above.

There are assumptions built into the MTFS for business rates growth, based on an assessment of new commercial developments undertaken in conjunction with the Development and Growth Team. This estimate is based on projects which are already in the pipeline.

The graph below shows the growth in business rates income (including Government grant in lieu of rates) above the

Government's baseline funding level since 2016. Although business rates income declined in 2020/21 and is projected to decline in 2021/22 it is still above the baseline level. The decline in business rates income in those years is mainly due to successful appeals and other changes to rateable values. The increase in projected business rates income for 2022/23 is mainly from expected Government compensation for freezing the multiplier.



SOLENT FREEPORT

The Government consulted on a national freeports programme in 2020. Freeport status means that normal tax and customs rules do not apply and varying forms of tariff flexibility, tax measures and planning concessions at the designated tax sites should help to incentivise private business investment. Cabinet agreed to support the Outline Business Case for the Solent Freeport at its meeting on 15 November 2021. The Final Business Case is expected to be submitted in March 2022. The MTFS makes no assumptions about the retained business rates relating to the Freeport as the arrangement is expected to operate on a no detriment basis. Any growth in business rates in the designated tax site is expected to be pooled for use as agreed by the Freeport.

1.2.3 Government Grants

REVENUE SUPPORT GRANT (RSG)

Historically a major source of funding for the Council has been the Revenue Support Grant (RSG), however since the austerity measures in the previous decade were introduced this grant has been reduced drastically with the Council suffering an 85% reduction between 2013/14 (when the Business Rates Retention scheme came in) and 2019/20.

As with the previous couple of years, the government has applied an inflationary uplift to RSG in the 2022/23 settlement (£0.34M increase for the Council) and the MTFS reflects this allocation, with an assumption of a cash flat allocation thereafter.

NEW HOMES BONUS (NHB)

The New Homes Bonus scheme rewards housing growth and empty properties being brought back into use. The scheme was expected to have ended in 2022/23, as the Government consulted on its replacement in early 2021. However, the Government decided to roll over the scheme for a further year, with one-off allocations for 2022/23 together with final legacy payments being made in respect of 2019/20 allocations. This grant is being funded via a 'top-slice' of £554M nationally from the resources allocated to local authorities. The Council's allocation for 2022/23 (including the final legacy payment) is £0.91M.

PUBLIC HEALTH GRANT

The Public Health Grant continues to be a ring-fenced grant to local authorities in 2022/23. Local authority allocations for 2022/23 were published on 8 February 2022, with all authorities receiving a 2.8% increase. The Council's allocations since 2016/17 are outlined in Table 3 below.

TABLE 3 PUBLIC HEALTH GRANT

	2016/17 £M	**2017/18 £M**	**2018/19 £M**	**2019/20 £M**	**2020/21 £M**	**2021/22 £M**	**2022/23 £M**
Public Health Grant allocations	17.78	17.42	16.90	16.52	17.17	17.39	17.88

OTHER GRANTS

The Council receives a variety of other grants from Government. Ring-fenced grants are recorded as service income and grants which are not ring-fenced to specific services are held centrally.

In the Autumn Budget and Spending Review 2021 the Government announced £4.8Bn of new grant funding over 3 years for local government (£1.6Bn each year). Allocations to individual local authorities for 2022/23 for £1.5Bn of this funding were confirmed in the Final Local Government Finance Settlement, with allocations for Supporting Families (£40M nationally) and Cyber Security (£12M nationally) to follow in due course.

For the 2022/23 settlement the Government created a one-year only Services Grant to fund general responsibilities, distributed using the 2013/14 settlement funding assessment. The Council's allocation of £3.82M is assumed to be one-off for the purposes of the MTFS as this funding will not form part of any baseline for transitional support for any future changes to the local government finance system. The settlement explicitly states that this grant includes funding for local government costs for the increase in employer National Insurance Contributions.

The settlement also includes an increase in Social Care Grant and an inflationary uplift to the Improved Better Care Fund, for which the Council's additional funding over and above previous assumptions are £3.08M and £0.31M respectively. For planning purposes, it has been assumed that these grants will continue in future years and this will therefore be a risk area should funds be discontinued.

Funding for the first stage of Social Care Reform was announced as part of the settlement. The Council received a £0.75M allocation of the £162M nationally for the Market Sustainability and Fair Cost of Care Fund. £600M will be made available nationally for this grant funding in 2023/24 and 2024/25, however individual local authority allocations have not yet been announced.

1.3 OTHER FINANCIAL ASSUMPTIONS

1.3.1 Pay Inflation

Assumptions have been made in the forecast about the 2021/22 pay award, which has yet to be settled, and the likely level of pay inflation that will apply from April 2022. As a large proportion of the Council’s expenditure is pay related, this can have a significant impact if actual rates are much higher than predicated.

In the Autumn Budget and Spending Review 2021 the government announced that the public sector pay freeze will be lifted. Although the local government pay settlement is negotiated separately, pay awards for the wider public sector are likely to have a bearing, along with higher earnings growth more widely and the current high level of general price inflation.

A 2.5% pay award has been assumed for 2022/23, and 2% thereafter.

1.3.2 National Insurance - Employer Costs

In September 2021 the Government announced that social care reforms, along with additional spending for the NHS, will be funded by a 1.25% increase in employee and employer National Insurance Contributions - a new Health and Social Care Levy. The increased rates are applicable from April 2022.

1.3.3 National Living Wage

The Government has adopted a policy of 'stepped' increases in the national living wage, which feeds into the council's costs in a number of areas but in particular for the costs of social care. The budget provides an allocation to address this cost pressure.

The Council has adopted the National Living Wage Foundation's recommended living wage, which is currently £9.90 (set in November 2021 but implemented by the Council from 1 April 2022), for payment of its employees, and this rate is higher than the Government's NLW (£9.50 from April 2022).

1.3.4 General Inflation

Assumptions have been made in the forecast about the likely level of general inflation that will apply from April 2022. There is a risk that should inflation increase at a higher rate than anticipated, our costs would rise, with many major contracts being uplifted by indexation linked to inflation on an annual basis.

The Consumer Price Index rose to 5.4% in December 2021 and is expected to go even higher in 2022 before falling back to around 2% by 2024/25.

Inflation assumptions are reviewed and a central provision exists to cover this cost but should costs rise in-year it is likely that services would be expected to absorb the difference.

1.3.5 Pension Fund - Employer Costs

Employer contributions to the Hampshire Local Government Pension Scheme (LGPS) were reviewed as part of the 2019 triennial revaluation process and the rate applicable from April 2020 to March 2023 of 18.2% (incorporating past service costs) has been factored into the MTFS. No changes to the rate have been assumed following the next triennial revaluation which will take effect from April 2023.

1.3.6 Centrally Held Contingency

The Council holds a contingency budget to provide cover for unforeseen cost pressures. The MTFS assumes this will be maintained at around £4.6M over the medium term.

1.4 EXECUTIVE COMMITMENTS, PRESSURES AND SAVINGS

1.4.1 Executive Commitments

Full Council approved new commitments relating to new priorities of the incoming Administration in July 2021, which have now been built into the MTFS.

Table 4 summarises these new commitments that have been included in the medium term financial forecast in Annex 1.1(a).

TABLE 4 SUMMARY OF EXECUTIVE COMMITMENTS

Key Theme	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**	**2025/26 £M**
Growth	0.45	0.15	0.05	0.05
Wellbeing	0.15	0.15	0.15	0.15
Communities, Culture & Heritage	0.64	0.29	0.29	0.29
Our Greener City	0.30	0.30	0.30	0.30
A council that works for and with you	0.57	0.05	0.00	0.00
Centrally held budgets and funding	2.83	3.59	3.65	3.71
Total Executive Commitments	**4.93**	**4.53**	**4.44**	**4.50**

Numbers are rounded

At its meeting in March 2021, Full Council approved funding for the City of Culture over the period 2022/23 to 2026/27, should Southampton be awarded the title City of Culture for 2025. This funding is not included in Table 4 above. Southampton has been selected as one of the eight successful locations chosen to move to the next stage of the bidding process. The final outcome is expected to be announced in May 2022

1.4.2 Budget Pressures

Table 5 summarises the budget pressures that have been included in the medium term financial forecast in Annex 1.1(a). These are mainly due to demand-led costs within social care, additional resources required to deliver the Destination 2022 plan within children's social care and staffing pressures within adult social care. Social care services in particular are experiencing challenges that are being felt by councils nationwide.

TABLE 5 SUMMARY OF BUDGET PRESSURES

Key Theme	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**	**2025/26 £M**
Growth	1.28	1.22	1.10	1.05
Wellbeing	11.43	14.32	14.80	15.51
Communities, Culture & Heritage	0.10	0.10	0.10	0.10
Our Greener City	0.00	0.00	0.00	0.00
A council that works for and with you	2.03	1.37	1.35	1.35
Centrally held budgets and funding	0.00	0.00	0.00	0.00
Total Budget Pressures	**14.83**	**17.01**	**17.35**	**18.01**

Numbers are rounded

1.4.3 Savings

The Council’s approach continues to be on driving through efficiencies and cost reductions, together with delivering savings through income generation with a view to protecting front line services and Council priorities. Table 6 summarises the savings that have been included in the medium term financial forecast in Annex 1.1(a).

TABLE 6 SUMMARY OF SAVINGS

Key Theme	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M
Growth	(1.67)	(1.41)	(1.75)	(1.82)
Wellbeing	(5.13)	(16.42)	(17.99)	(18.49)
Communities, Culture & Heritage	(0.64)	(0.64)	(0.64)	(0.64)
Our Greener City	(0.32)	(0.47)	(0.47)	(0.47)
A council that works for and with you	(1.32)	(1.32)	(1.32)	(1.32)
Centrally held budgets and funding	(1.78)	(1.05)	(0.78)	(0.78)
Total Savings	**(10.87)**	**(21.31)**	**(22.96)**	**(23.52)**

Numbers are rounded

The proposed saving relating to St Mary's Leisure Centre is subject to the outcome of a consultation on the proposal and a final decision. If the proposal does not proceed it will be removed from the budget and the relevant Executive Director will discuss a way forward with the Executive Director for Finance, Commercialisation & S151 Officer.

1.5 BALANCES AND EARMARKED RESERVES

The minimum level of General Fund balances is reviewed and risk assessed on an annual basis. The Executive Director for Finance, Commercialisation & S151 Officer recommends that the minimum level of General Fund Balances should be maintained at £10.1M. This balance provides mitigation against any unforeseeable events the Council may face, as well as potential overspends in demand led areas such as social care and safeguarding for both adults and children.

As well as maintaining a risk based General Fund Balance the Council can also set aside earmarked reserves (for these purposes earmarked reserves excludes school balances) for specific items.

The financial risks facing the Council in the medium term are assessed within the MTFS. This includes assessing the risks around Government funding and other income streams of the Council, the subsequent budget shortfalls that the Council would then face and overall local and national economic factors which can affect the financial stability of the Council. The COVID-19 pandemic has increased the level of risk faced by the Council, both in the cost pressures faced and the economic impact on income streams.

Reserves totalled £130.38M at the end of 2020/21, which included revenue grants carried forward totalling £35.04M predominantly relating to COVID-19 which are expected to be used in 2021/22. By the end of 2021/22 the forecast balance on reserves ((excluding schools' balances) is £77.55M. Annex 1.1(b) shows the forecast future position for reserves following review of their use and identification of what is available. The proposed budget strategy involves using an element of the available reserves to meet budget pressures in 2022/23. This will allow more time to develop proposals to make cost reductions or generate additional income as a way to balance the budget in future years. Table 7 below shows the planned use of corporate reserves within the MTFS.

TABLE 7 FORECAST USE OF CORPORATE EARMARKED RESERVES

	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M
MTFF as at February 2021	**(4.80)**	**0.00**	**0.00**	**0.00**
Net use of Medium Term Financial Risk Reserve	(10.23)			
Local Council Tax Support Grant carried forward	(2.82)			
Use of Portfolio Carry Forward Reserve	(0.36)			
Sub-Total: New net use of reserves (excluding Collection Fund timing differences)	(13.41)	0.00	0.00	0.00
Government grant for additional 2021/22 business rates relief carried forward to offset Collection Fund deficit	(16.03)			
Repayment of over-estimate of Government compensation for 2020/21 irrecoverable tax losses	2.37			
Sub-Total: New net use of reserves for Collection Fund timing differences	(13.66)	0.00	0.00	0.00
MTFS as at February 2022	**(31.87)**	**0.00**	**0.00**	**0.00**

Numbers are rounded

Reserve use and retention is an important part of the medium term financial strategy. Even after applying a proportion of the available reserves, it is estimated there will still be £32.65M uncommitted corporate reserves left at the end of the MTFS period. Table 8 below shows the forecast General Fund earmarked reserves (excluding schools' balances) at the end of each financial year of the MTFS. See paragraphs 19 to 30 of the main report on reserves in the context of the S151 view of their adequacy.

TABLE 8 GENERAL FUND EARMARKED RESERVES

	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M
Total earmarked reserves (excluding schools' balances)	77.55	45.45	45.49	45.63	45.77

The balance at the end of 2021/22 includes a net carry forward of £13.66M as shown in Table 7 above for government grants relating to timing differences between accounting for grant income and the corresponding Collection Fund deficit balance in the General Fund. Excluding these net government grants carried forward due to timing differences, the non-school earmarked revenue reserves are forecast to be £63.89M at 31 March 2022.

The earmarked reserves forecast excludes a £9.8M forecast deficit balance relating to a cumulative overspend against the Dedicated Schools Grant, which in accordance with regulations is being held in a separate account so as to have no impact on the General Fund and non-school services the council provides. The regulations apply to the end of 2022/23, so if the DSG position does not improve within that time period or if the period to which the regulations apply is not extended, the £9.8M deficit will fall to be included within General Fund earmarked reserves from 2023/24.

A further review of reserves and balances will be undertaken each year as part of the budget setting and final accounts process to ensure the Council has adequate resources to cover uncertainty and risk. Reserves will provide a cushion against any 'shocks' to Council funding, unforeseen pressures, or delays to delivering savings or being unable to realise the assumed level of savings/income generation.

1.6 FORECAST FINANCIAL POSITION 2022/23 – 2025/26

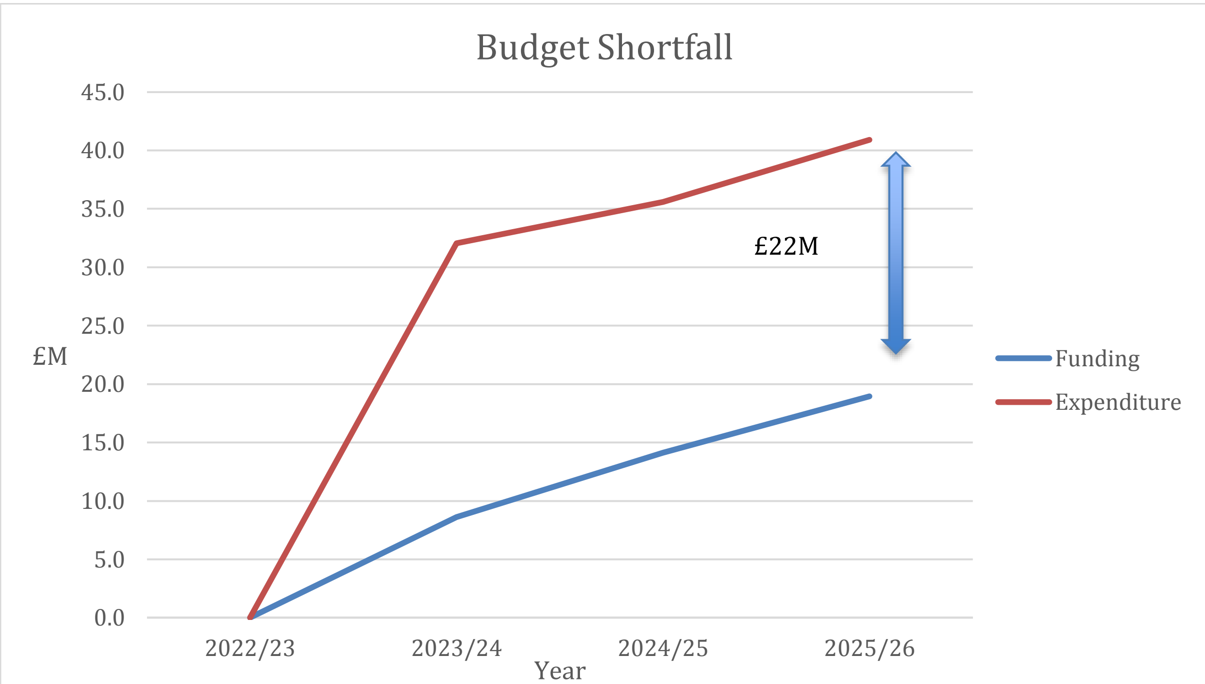
The Council's current forecast financial position is detailed below and includes the implications of the local government finance settlement. It will be reviewed each year of budget setting to reflect any new pressures, changes in funding assumptions and any revision to the Council Strategy.

Where possible factors described in Section 2 have been built into the financial modelling to ascertain the forecast financial position. The graph below demonstrates the budget shortfall to 2025/26 as at February 2022.

Table 9 below shows the current summary position, with the detail being included in Annex 1.1(a) to the MTFS. This shows the Council is required to achieve annual savings of around £23.4M from 2023/24. Cost pressures, particularly within social care, that were already being faced by the Council have been exacerbated by the COVID-19 pandemic and high levels of inflation and earnings growth put further pressure on the budget. Although some additional government funding has been forthcoming this is not sufficient to meet the forecast expenditure. The Spending Review 2021 showed local government funding at a national level remaining flat between 2022/23 and 2024/25, so there is no expectation of new funding in later years. Reserves are being used on a one-off basis to balance the budget in 2022/23, however there is a significant budget shortfall to address over the medium term.

TABLE 9 FORECAST BUDGET SHORTFALL

	2022/23 £M	**2023/24 £M**	**2024/25 £M**	**2025/26 £M**
Net Expenditure	193.05	225.10	228.63	233.95
Funding	(193.05)	(201.67)	(207.17)	(212.00)
Forecast Budget Shortfall	**0.00**	**23.43**	**21.46**	**21.95**



The medium term forecast does not allow for any new general use of reserves to offset the budget shortfall in 2023/24 or later years or for an increase in the Adult Social Care Precept. A flat cash allocation for Revenue Support Grant has been assumed and the one-off 2022/23 Services Grant is not assumed to continue. 2022/23 is expected to be the final year of the New Homes Bonus scheme and nothing has been built in for Government reward for housing growth in future years. A gradual decline in the elevated rates of working age council tax support claims has been assumed. If any of these factors are more favourable than anticipated this would reduce the budget shortfall. Conversely, there are downside risks to the MTFS as set out in section 1.9. Sufficient reserves need to be held to provide cover for these downside risks, which limits the amount available that could be applied to help address the budget shortfall in future years.

1.7 CAPITAL PROGRAMME

Planned capital expenditure and the associated financing is detailed within the budget report for approval by Council in February 2022. The programme has been reviewed and reprofiled in light of the COVID-19 pandemic and changing priorities. A number of new investments have been considered and have been included in the proposed Capital Programme for 2021/22 to 2026/27. The proposed programme totals £727.54M and includes £426.20M for the General Fund and £301.35M for the HRA. The General Fund Capital Programme includes the following major commitments:

- £10.2M for flood alleviation schemes
- £139.8M for highways and transport schemes
- £94.5M for schools and other education projects
- £17.2M for Outdoor Leisure Improvements

Consideration has also been given to the most appropriate use of capital resources in supporting the programme and meeting the investments and the priorities for the City. All the revenue implications of the capital projects are built into both the General Fund Estimates and Housing Revenue Account Business Plan.

There are a number of exciting opportunities within the City which are currently being explored including the waterfront development of Mayflower Park and surrounding areas, alongside the potential to undertake extensive public realm works in and around the Bargate.

1.8 HOUSING REVENUE ACCOUNT

The national self-financing regime for the Housing Revenue Account (HRA) was introduced in April 2012. A 40 year HRA Business Plan, covering both capital and revenue expenditure projections, has been prepared using the planning principles agreed by Council in November 2011 and amended by subsequent budget reports.

The main points to note are:

- The budget proposals for 2022/23 include a significant reduction in capital budget, to reflect the Councils stated priority for working in partnership with other Registered Providers. In-house delivery of new homes has been committed to plots 2, 9, and 10 Townhill Park, beyond which a model of working with registered providers to deliver new housing will apply.
- The capital spending plans include provision to maintain and improve all existing dwellings and feature an increase in the level of planned expenditure on fire safety in the early years.
- A provision of £204M (including inflation adjustment) is set aside for stock investment, that may be required over the next 40 years.
- The revenue budget meets the minimum balances of £2M over the life of the Plan.

The Welfare Reform & Work Bill 2015/16 imposed a 1% per annum reduction in rents charged to tenants for a 4 year period from 2016/17 to 2019/20. This period has ended, and rents are increasing in line with prevailing inflation data. The rental increases are still limited by national Government policy and are currently calculated using the Consumer

Price Index inflation plus 1% for the next three years, and Consumer Price Index only thereafter. The budget proposals recommend a freeze in rent and service charge for 2022/23, and the MTFS assumes a return to government policy from 2023/24.

The COVID-19 pandemic caused disruption to the delivery of the capital programme through 2020/21 and 2021/22 due to the measures taken as part of the response. The Council's response to the pandemic also saw a pause in recovery action and the bad debt provision was adjusted to reflect this at the time. The MTFS assumes that COVID-19 will have less of an impact in future years but will continue to be monitored.

1.9 KEY RISKS

There is a significant degree of uncertainty, arising from both internal and external factors, which could have a significant impact on the key assumptions made within the MTFS.

These risks are reflected in a 'Key Financial Risks' document which identifies the key financial risks to the Council's financial position over the short to medium term together with a summary of the mitigating actions in place and planned, which is reviewed on a quarterly basis as part of financial monitoring. These financial risks are reflected in the assessment of the adequacy of estimates and reserves.

Factors that can have a material effect on the financial position of the Council include:

- The impact of the COVID-19 pandemic
- The lack of certainty in Government funding for future years including grants and reforms to the local government finance system
- Changes in function
- Changes in how services are funded
- Changes in the economy
- Unmanaged service pressures and increases in demand
- Council tax policy;
- Business rates volatility, more frequent business rates revaluations and changes to the Business Rates Retention scheme, including the resetting of baselines for measuring growth
- Changes in legislation and government policy
- Level of future pay awards and general inflation assumptions
- Impact of National Living Wage
- Adequacy of contingencies in any one period
- Treasury Management and interest rate changes
- Projected income levels from fees & charges
- Non achievement of savings
- Level of provision for insurances
- Ad hoc or unforeseen events/emergencies
- Social care reforms
- New unfunded burdens
- Welfare reforms
- Provider failure
- Demographic changes
- Impact of exiting the European Union

It is important to note that the revised forecast represents the best estimate of the forecast position moving forward. However, there are a number of risks associated with these revised forecasts, the main risks being as follows:

1. **Financial** – the majority of the future years' forecast and model is based on a series of assumptions, the further into the future you look the higher the risk that these assumptions are inaccurate.
2. **Political** – The Spending Review 2021 covers the period 2022/23 to 2024/25, however the local government finance settlement is only for 1 year. Changes to the local government finance system, including the business rates retention scheme and revised assessments of needs and resources, have been deferred for at least another year. In the Provisional Local Government Finance Settlement, the Government signalled its intention to work with the sector and other stakeholders during 2022 on potential changes to the system. The impact of any positive or negative change to our future funding as a result of any such changes will need to be considered in due course.
3. **Treasury** – the MTFS is based on a reasonably stable global financial position going forward. If the assumptions change it may have a major impact on the financial position of the Council particularly around business rate income, and interest payments.
4. **Internal Change** – Service transformation will be required to address the budget shortfall over the medium term. Inevitably, such changes have associated risks.

1.10 MANAGING BUDGETS AND FORECASTING

In setting the annual budget and the MTFS the Council will ensure potential risks are assessed and managed so that their impact is minimised or accounted for either via Contingencies, Balances or Earmarked Reserves as is necessary. In year, the Council will monitor its revenue and capital budgets (including the HRA) on a monthly basis and report to Cabinet on a quarterly basis.

CIPFA has introduced a Financial Management Code, applicable from April 2021. The Code sets out the broad principles it requires for sound financial management and expects authorities to measure their own processes against the principles it sets out. The Council will continue to review processes to ensure consistency with the good practice the Code expects. The FM Code principles are set out in Annex 1.1(d).

SECTION 2. **Context**

2.1 STRATEGIC CONTEXT

There are a number of strategies, policies and plans which impact on the direction of the Council and the day to day operations therefore impacting on the MTFS.

2.1.1 Southampton City Strategy 2015-2025

The MTFS is framed by the City Strategy 2015-2025 which has a vision of creating a city of opportunity where everyone thrives alongside a goal of prosperity for all. The strategy has been developed by Southampton Connect, a partnership group consisting of representatives from business, the public, voluntary and education sectors and the City Council. The City Strategy identifies three key priorities:

- Economic Growth with social responsibility;
- Skills and Employment; and
- Healthier and safer communities.

It also includes four cross cutting themes:

- Fostering City Pride and Community capacity;
- Delivering whole place thinking and innovation;
- Improving mental health; and
- Tackling poverty and inequality.

Southampton Connect works closely with the key city partnerships to deliver against the vision, priorities and themes. Partnerships include the Employment, Skills & Learning Partnership, Health and Wellbeing Board, the Local Outbreak Engagement Board and the Safe City Partnership.

2.1.2 Southampton City Council Strategy

The council's vision is to deliver an ambitious, more prosperous, healthy, happy and hopeful city. *Southampton: City of opportunity* was revised in 2021 following the change in administration and is deliberately focused on the next two years to create a platform to deliver for future years. The plan will be delivered through initiatives within the following themes:

Growth	Wellbeing	Our Greener City	Communities, Culture & Heritage	A council that works for and with you

2.1.3 Other Major Strategies

CUSTOMER ACCESS STRATEGY 2021-2026

The Council's customer vision is:

We want to put all of our customers at the heart of everything we do, reflecting their feedback in the design and delivery of services, and to provide appropriate support to those who need it ensuring that customer experiences are easy, effective and convenient.

The Customer Access Strategy sets out access principles and strategic approaches to contact channels in addition to three core customer service aims, all these and high level actions aim to achieve the council's customer vision. The three core customer service aims are:

- Keep the customer central;
- Aim to resolve things in one contact; and

- Always be clear about expectations and keep customers in the loop.

IT STRATEGY 2021-2025

The IT Strategy 2021-2025 describes the planned approach and activities that the IT Service will develop and deliver to support meeting the ambitions and objectives set out for Southampton City Council in the 2020-2025 Corporate Plan.

The IT Strategy sets out the following principles that will be applied when delivering the IT Strategy:

- That the services provided by IT will support a digital first culture and acting as an enabler so that services can confidently build digital capability into their service plans;
- To adopt an agile mindset and agile practices to ensure rapid continual development. To continue to move away from legacy IT systems and projects approaches;
- To continue to move towards a modern IT Infrastructure that supports customer focussed digital services. The most appropriate technologies will be adopted to meet business need with an increasing use of cloud and software as a service (SaaS) products; and
- To be forward thinking and sector leading as an authority in the creation of digital services and use of IT and technology for delivering innovative and ground-breaking services.

WORKFORCE DEVELOPMENT STRATEGY

The Workforce Development Strategy sets out a high level vision, priorities and outcomes to develop and nurture a motivated and effective workforce who will deliver the Council's priorities. The priority outcomes delivered by the Workforce Strategy will be:

- Recognised as an employer of choice;
- A high performing workforce;
- Good management across the Council;
- Evidenced based decision making, planning and delivery;
- A highly motivated and engage workforce;
- Staff empowered to make decisions;
- An effective Member Development programme for councillors; and
- Demonstrable valuing of diversity and equality.

2.1.4 Key Financial Strategies

CAPITAL STRATEGY

The Capital Strategy provides an overview of the Council's Capital Programme, Treasury Strategy, Service Investment Strategy, Property Investment Strategy and MRP Statement. The strategy details the priorities of the Council in terms of capital expenditure and a framework for the Council's capital plans to be agreed and implemented.

The Capital Programme sets out the capital plans for the next five years, taking account of any capital investment required to deliver priorities.

TREASURY MANAGEMENT STRATEGY

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Executive Director for Finance, Commercialisation & S151 Officer to make decisions on the management of the City Council's debt and investment of surplus funds.

INVESTMENT STRATEGY

The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested, however it should be noted that a lower rate is an acceptable offset for higher credit and less risk, for example a covered bond.

BORROWING STRATEGY

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

2.2 POLICIES, PLANS AND OTHER FACTORS

Key issues affecting Council services and finances are detailed below as they can have a major impact on the Council's budget in the short and medium term. There are demographic and system-wide social-economic factors which undoubtedly impact the residents of Southampton and have an impact on the services which the Council and its partners deliver across the city. The financial implications of these factors are included in the Medium Term Financial Strategy where it has been possible to make a financial assessment at this time.

2.2.1 Demographics

The most recent data available for the population of Southampton is from the Office of National Statistics mid-year estimate 2020. This puts the total figure at 252,872. There were 129,669 (51%) males and 123,203 (49%) females. Southampton's population is predicted to rise by 7.1% between 2018 and 2043. This is an increase of 18,000 people from 252,800 people in 2018 to 270,800 people in 2043.

However, the 2011 Census provides a more detailed population profile for the city. According to this, in 2011 the city's population profile comprised 236,900 residents and:

- There were 122,368 females and 127,168 males, a 49% to 51% split.
- 77.7% of residents were white British (compared to 88.7% in 2001).
- The 'Other white' population, which includes migrants from Europe, increased by over 200% (from 5,519 to 17,461) compared to Census 2001.
- The largest percentage increase is in our 'other Asian' population, which increased from 833 to 5,281 people compared to Census 2001.
- It is estimated that there are 26,929 residents whose main language is not English; of these 717 cannot speak English at all and a further 4,587 do not speak it well. In 2021 there were 149 different languages spoken in schools across Southampton.
- 4,672 residents in Southampton are aged 85 or over, of whom 834 are in bad or very bad health and have a long-term illness or disability.

Population forecasts for Southampton and nationally show that more people are living longer and as a consequence average life expectancy is increasing. The fastest growing sector of the population is that aged 75 to 79 years. Forecasts predict the 75 to 79 years age group will rise by 30.5% between 2019 and 2026, whilst the number of people aged 75 and over is forecast to rise by 22.5% over the same period. Longer term projections, based on past trends, predict a 43.4% increase in over 65s in Southampton between 2016 and 2041.

2.2.2 National and Local Policy

COVID-19 PANDEMIC

Since March 2020, COVID-19 has affected our residents, communities, public institutions, all types of businesses, as well as voluntary sector and community organisations. It has been a public health crisis as well as creating an economic crisis. Responding to the COVID-19 pandemic has been the priority not only for central Government, but also local government. Southampton City Council has played a critical role in helping to lead the local response. As the pandemic moved into a second year, the Council has continued to either put in place directly or worked to support and deliver Government initiatives designed to protect our communities, local business and vulnerable people. These measures include:

- Providing additional financial support to adult social care providers, including support for infection control measures within care homes;
- Administering grant payments to local businesses, council tax hardship discounts and self-isolation support payments;
- Providing additional support for the homeless and rough sleepers to stay in local accommodation;
- Operating an emergency food hub; and
- Providing additional local support to the test, track and trace process.

COVID-19 has had a significant financial impact across many of the Council's services, in terms of demand for support in areas such as both Adults and Children's social care as well as many other services producing much higher than expected costs. Two national lockdowns with school closures have affected young people in multiple ways such as educational attainment and mental health concerns. This will put greater pressure on schools and services supporting young people. There remains an emphasis on the public health response in light of the emergence and dominance of the Omicron variant with a push for vaccination and booster vaccinations to residents. The impact of staff absences and the knock-on effect on service delivery remains a concern with contingency plans in place.

Looking to the future, the city is focused on the economic recovery from the pandemic as businesses reopen and the measures put in place to encourage people back to the city's retail, hospitality and heritage venues. The removal of national restrictions and potential changes to the testing system will continue to need managing locally as well as ways to live with covid and potential future outbreaks or new variants.

In 2020/21 and 2021/22 the Government has provided general grant funding to local authorities to help meet costs arising from the pandemic, as well as compensation schemes for income and irrecoverable tax losses and funding for specific services and measures, however this is not sufficient to meet all of the costs/income losses that the Council faces. No further general COVID-19 funding is being provided for 2022/23.

END OF THE TRANSITION PERIOD FOR EXITING THE EUROPEAN UNION

Following the outcome of the referendum on 23 June 2016, the UK left the EU on 31 January 2020 and entered an 11-month transition period. Some policy changes came into effect on 1 January 2021 which covered the rights of EU citizens to reside in the UK. From 1 January 2022 rules around trade came into effect. There are changes to customs declarations, border controls, rules of origin – for imports and exports, postponed VAT accounting and commodity codes. Further changes will be introduced from July 2022 including further checks on imports and the need for Export Health Certificates.

The beginning of a new relationship between the UK and EU will inevitably have an impact on the council's finances. This will include the ending of certain funding streams and changes to some of our financial processes such as procurement. The UK Shared Prosperity Fund will be launched in April 2022 replacing EU 'structural funds', which the city has benefitted from. Until details are announced, there remains uncertainty for the future sustainability of some funded projects within the council and voluntary organisations.

AFGHAN RELOCATIONS AND ASSISTANCE PROGRAMME

On 29 December 2020, the Defence Secretary and Home Secretary announced the Afghan Relocations and Assistance Policy (ARAP). This is a new scheme that will offer relocation or other assistance to current and former Locally Employed Staff in Afghanistan to reflect the changing situation in Afghanistan. The ARAP scheme launched on 1 April 2021 and will continue to remain open and operate indefinitely.

Following the withdrawal of the UK from Afghanistan in August 2021, the Government announced Operation Warm Welcome on 1 September, where arrivals under ARAP will be given immediate indefinite leave to remain, alongside funding for school places and healthcare. People already relocated to the UK under the ARAP will be able to apply free of charge to convert their temporary leave into indefinite leave. Councils were asked to support Afghan families arriving In the UK with a funding package provided. Southampton took in 135 Afghan migrants of which 60 are under 18, 46 school-age, 30 family groups. They have been housed in a hotel in the city which has been funded by the Home Office through the scheme. There has been an impact on services including school places and access to primary care in the short term and potentially an impact on other services in the medium term as people continue to go through the settlement system.

NET ZERO AND THE GREEN ECONOMY

The UK hosted the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow on 31 October - 12 November 2021. *The Glasgow Climate Pact* reaffirmed the commitment to limiting the increase in the global average temperature to below 2°C. There was a call for accelerated action from countries on reducing carbon dioxide emissions and a phase-down of coal power. There were also commitments around climate finance.

The UK Government are keen to be seen as a world leader on tackling climate change. In October 2021 they published their *Net Zero Strategy: Build Back Greener* for the rapid reduction in greenhouse gas emissions, providing for a 78% reduction from 1990 to 2035 and setting out a vision for achieving net zero by 2050. The Strategy recognises the importance of a ‘place-based’ approach, with local government playing an essential role in embedding climate action in local places and services and driving public engagement. The strategy suggests that net zero and levelling up ‘go hand in hand’. The Government has embedded net zero in the £4.8Bn Levelling Up fund and the same approach will be taken with Freeports. The Strategy provides increased policy certainty for local government decision-makers and should enhance Southampton City Council's ability to plan projects and leverage private investment. The role of local government in delivering net zero will be clarified through a new Local Net Zero Forum to be set up by the Government. There are a number of funding sources for local emission reduction including 22 grants set out In the Net Zero Strategy. Until these are set out in more detail the financial impact cannot be measured but there are potential opportunities for investment in the city's economy.

ADULT SOCIAL CARE REFORM

On 7 September 2021 the Prime Minister announced proposals for reforming adult social care, publishing the details in the white paper “Building Back Better: Our Plan for Health and Social Care”. The proposals take effect from October 2023 and include a £86,000 cap on the maximum that individuals will pay towards care, an increase in the asset threshold from £23,250 to £100,000 and the ability for self-funders to ask their local authority to arrange their care for them so that they can find better value care.

This was followed up with a second white paper on 1 December 2021 "People at the Heart of Care: adult social care reform", setting out the Government's 10-year vision for transforming support and care in England. The 3 objectives of the vision are:

- People have choice, control and support to live independent lives;

- People can access outstanding quality and tailored care and support; and
- People find adult social care fair and accessible.

The Government intends to fund the cost of social care reforms through the new Health and Social Care Levy. £5.4Bn of the Levy has been allocated for this purpose over the 3 years 2022/23 - 2024/25. It is not yet known whether the funding announced by Government will be sufficient to meet the additional costs that local authorities will incur from the Introduction of these reforms. For the purposes of the MTFS it has been assumed the impact is neutral until more detailed information is available.

2.2.3 Socio-Economic Factors

Southampton is ranked 55th on the overall Index of Multiple Deprivation (IMD) 2019 out of the 317 Local Authorities in England (1 equals the most deprived). Previously for IMD 2015 Southampton ranked 54th so has become relatively less deprived. 7 out of 16 wards have some areas which are within the 10% most deprived areas in the country. The IMD focuses on the geographical profile of poverty but there is also a link between equality strands and risk factors for poverty. The IMD from 2019 Is the most recent to be published and is largely based on data from 2015/16.

However, in addition in terms of economic growth in the 2019 Good Growth for Cities index, Southampton and its environs was ranked the 3rd highest city. The index takes into account jobs, income, health, work-life balance, new businesses, housing, transport, skills, environment and income distribution.

LOOKED AFTER CHILDREN

From 2010 to 2015, the rates of referrals of children and young people to Children's Social Services continued to increase year on year. However, as can be seen from the table below, from 2015 onwards, there has been a downward trend in the rate per 10,000 (0-17) children from 1,322.2 in 2015 to 790 in 2021. Although there was an increase in the rate per 10,000 children in 2020 we have seen a decrease In 2021 to 790/10k. We are higher than the national average but 2021 activity has seen us move closer to Statical Neighbour Average activity of 647/10k.

Rates of Referrals per 10,000 (0-17) Children

Year	Southampton CC	National Averages
2015	1322.2	548.3
2016	839.1	532.2
2017	610.9	548.2
2018	519.4	552.5
2019	511.1	544.5
2020	943.9	534.8
2021	790	494

Over the period from 2010 to 2015, the rate of Looked After Children (per 10,000 children aged under 18) increased by 42.9% in Southampton compared to a 5.3% increase nationally (England average).

Although Southampton's rate is still higher than the national average, it has from 2016 onwards, seen annual decreases in the rate - and only marginally increased in 2021 to 96/10k. This plateaued position is in line with National average rates England, however Statistical Neighbour rates for Looked After Children Increased to 100/10k in 2021.

Rates of Looked After Children per 10,000 (0-17) Children

Area	2015	2016	2017	2018	2019	2020	2021
Southampton CC	120	120	108	104	95	95	96
National Averages	60	60	62	64	65	67	67

In the year ending March 2021, the council carried out 320 Section 47 Child Protection investigations for every 10,000 children compared with 164 per 10,000 nationally and 260/10k for Statistical Neighbours. The city had a rate per 10,000 children of 103 subject to an initial child protection conference, compared with an average of 60 per 10,000 In England and 90.10k for our Statistical Neighbours.

These high rates of referrals, Children Looked After and child protection investigations in Southampton reflect the level of need in the city. To ensure that children's needs are met at the earliest stage, a children's services transformation programme is underway.

With regards to Children Looked After (CLA) numbers, we had 497 CLA as at March 31st 2021, an Increase of 11 CLA from the previous year. Statistical Neighbours had an average of 640 CLA at the same period.

The number of children in care has, from December 2016 onwards, remained under 600 and from July 2018 under 530, however as we have come out of lockdown, post pandemic, we have seen the numbers of children coming into care increase, the current figure at the end of December 2021 was 542. The percentage CLA in fostering placements made with independent fostering agencies, (IFA) as at 17th December 2021 was approx. 31% (167 placements). This up from 150 during the same period last year.

The cost of an IFA is, on average two to three times more expensive than an internal placement. This has created and continues to create a significant pressure on the Children Services budget.

We are continuing to review our contracts with IFAs to negotiate cost reductions as well as also increasing the numbers of 'in-house' foster carers through targeted recruitment, providing more options for in-house placements where appropriate. As at 17th of December 2021, Southampton CC had 162 in-house foster carers, many of which can provide placements for more than one child.

2.2.4 Physical-environmental factors

HOUSING

In Southampton 25% of residents live in privately rented accommodation, which is higher than the average for comparator cities at 18% and the England average of 17%. There are around 6,500 Houses of Multiple Occupation (HMOs) in the city. Nearly a quarter of all homes are in the social rented sector with 15,327 managed by the council with 7,647 households on its housing waiting list. In the last 12 months, there has been a drop in the number of decent homes from 65.5% to 58.5% of the housing stock. The main reason is the effect of the pandemic on the delivery of the planned works programme. A recovery programme has been implemented to commence April 2022 and will improve delivery. However, there is still a likelihood of some disruption, though not on the scale previously experienced, due to the effects of post-pandemic recovery in supply chains and the labour market.

The most up to date housing target for Southampton has been calculated during preparation of the Council's new Local Plan, 'Southampton City Vision'. The target is not yet set out in any publicly available documents. However, following the

Government's standard methodology and applying the 35% uplift, as required for the top 20 cities and urban centres, the target for Southampton is to deliver 26,391 new homes between 2021 and 2040. The Council recognises that the number of new affordable homes available needs to be increased, and will be coming forward with proposals to address this in partnership with Housing Associations across the city.

2.2.5 Wider Partnership Working

BETTER CARE FUND

The Better Care Fund commenced 1 April 2015 and is framed within a formal contract with Southampton City Clinical Commissioning Group (SCCCG) for a pooled budget under Section 75 of the National Health Service Act 2006. The purpose of the Fund is to ensure closer integration between health and social care services.

The Southampton Better Care Fund pools funding for a significantly greater number of services than the minimum required which is consistent with the ambition locally to integrate and pool resources at a scale to significantly transform its health and care services.

The Southampton Better Care Plan has identified key areas where greater integration between Health and Social Care will make system wide efficiencies that will benefit both organisations. For the Council these efficiencies have been included within the medium-term financial forecast. In 2022/23 the provisional combined Better Care Fund budget is £137.5M, comprising £86.5M for the CCG and £51.0M for the Council.

2.2.6 Strategic Contracts

The Council has in previous years entered into a number of strategic contracts which have resulted in ongoing financial commitments. These include PFI contracts for schools and street lighting, a highways services partnership and a long term waste disposal contract. Whilst these contracts are actively monitored and performance managed to ensure they deliver value for money, it can be lengthy and more difficult to renegotiate these contracts to reduce expenditure and the Council has already realised savings in previous financial years. The financial health of these major contractors is kept under review as part of the monitoring arrangements.

2.3 NATIONAL ECONOMIC AND PUBLIC EXPENDITURE PLANS

The MTFS is set within the context of national economic and public expenditure plans and takes into account the national legislation setting out the Council's ability to borrow and to raise income from Council Tax and other sources.

2.3.1 Autumn Budget and Spending Review 2021

The government published the Autumn Budget and Spending Review 2021 on 27 October 2021, setting out spending plans for the 3-year period 2022/23 to 2024/25. The Chancellor announced a budget for a "stronger economy for the British people" that will prepare for a "new economy post Covid". The government plans to "build back better" by "investing in strong public services, driving economic growth, leading the transition to net zero, and supporting people and businesses", with levelling up being "at the heart of these plans". The key points relevant to Southampton City Council were as follows:

- Local government will be given £4.8Bn in new grant funding over the next 3 years (£1.6Bn in each year, with no increases in the 2nd and 3rd years at a national level). This includes £200M for the Supporting Families programme, £37.8M for cyber security and £34.5M to strengthen local delivery and transparency.
- Additional funding will be made available for social care reform (£3.6Bn over 3 years to implement "the cap on personal care costs and changes to the means test").
- £1.7Bn will be allocated over 3 years "to improve the wider social care system". £500M of this will be made available to "improve qualifications, skills and wellbeing across the adult social care workforce".

- Core Spending Power (CSP) will increase by £8.5Bn, over 3% annually in real terms. However, this includes the funding for social care reform. Excluding the social care reform funding the increase is 1% annually in real terms and this assumes the council tax increase limits set out below are applied.
- Local authorities are likely to be able to increase their council tax bills by 2% without needing to hold a referendum and local authorities with social care responsibilities able to add a further 1% to help fund the pressures in adult social care.
- The business rates multiplier will be frozen in 2022/23 for a second year running (instead of increasing by inflation). The frequency of business rates revaluations will be increased to every 3 years instead of every 5 years, starting in 2023. Further discounts and reliefs have been announced:
    - a new 50% business rates discount, up to a £110,000 per business cap, for eligible properties in the retail, hospitality, and leisure sectors, lasting for one year.
    - a new investment relief to encourage business to adopt green technology.
    - a new relief allowing businesses to make property improvements and pay no extra rates for a year.
    - Extension of the transitional relief for small and medium-sized businesses and the supporting small business scheme for 1 year.

  Local authorities will receive full compensation for loss of income from these business rates measures.
- There was no announcement In the Spending Review about local government funding reforms (fair funding review or business rates retention changes) or the new homes bonus scheme.
- No new funding has been announced for ongoing COVID-19 pressures within local government.
- The public sector pay freeze will be lifted. It is worth noting that local authorities set their own pay increases, determined at national level negotiations, so this isn't directly impacted by the Government's announcement.
- The National Living Wage will increase from £8.91 an hour to £9.50 an hour from April 2022.
- The Office for Budget Responsibility forecasts inflation to reach 4% in 2022 before reducing back down to the target 2% by 2025.
- Schools are to receive and additional £4.7Bn funding by 2024/25, restoring per pupil funding to 2010 levels in real terms. There will be £2Bn of new funding to help schools and colleges recover from the pandemic and £2.6Bn to create school places for children with special educational needs and disabilities.
- £200M a year will be provided to continue the holiday activity and food programme.
- £170M will be provided by 2024/25 to increase the hourly rate paid to early years providers and £150M over 3 years has been reaffirmed to support training and development of the Early Years workforce.
- £259M will be provided to maintain capacity and expand provision in residential children's homes.
- The Public Health Grant will be maintained in real terms, including continuation of £100M to help people maintain a healthy weight and investing £66M in the Start for Life programme.
- £554M will be provided by 2024/25 for adult skills and retraining and £560M for the development of numeracy skills via the Multiply programme.
- £1.7Bn has been allocated in the first bidding round of the £4.8Bn Levelling Up Fund to invest in infrastructure in over 100 local areas across the UK.
- Up to £200M will be provided to deliver 8 Freeports in England.
- £850M is being invested for cultural and heritage infrastructure.
- £765M is being provided for football pitches, tennis courts and youth facilities, including £560M for youth services to fund 300 youth clubs.
- Investment in housing will total nearly £24Bn by 2025/26. £11.5Bn will be spent on 180,000 new affordable homes; £1.8Bn to build around 160,000 new homes, including £300M for unlocking brownfield sites; £5Bn to remove unsafe cladding partly funded by levy on property developers.
- £639M a year will be provided by 2024/25 to reduce rough sleeping, a cash increase of 85% compared to 2019/20.
- £5.7Bn has been allocated for London style integrated transport settlements for 8 English city regions. In addition, £2.6Bn will be spent on local roads upgrades; £2.7Bn for local roads maintenance; £5Bn invested for buses, cycling and walking; £35Bn invested in railways.
- Funding of more than £300M will be provided to implement free, separate food waste collections in every local authority in England from 2025.

2.3.2 Provisional Local Government Finance Settlement 2022/23

The 2022/23 provisional settlement was announced on 16 December 2021, providing details of how resources announced in the spending review have been allocated in 2022/23. Although the spending review covers a 3 year period, the local government finance settlement is only for 1 year. Other key messages from the settlement are as follows:

- A new, but one year only, 2022/23 Services Grant has been created to fund general responsibilities.
- Of the £1.5Bn made available in the spending review (excluding the named programmes), £636M is for additional Social Care Grant, £822M for the new Services Grant and £70M to provide an inflationary uplift to Revenue Support Grant.
- The New Homes Bonus Scheme was expected to have ended in 2022/23, however a further year's one-off allocation has been made (along with the final legacy payment for 2019/20 allocations).
- £162M of funding for the first stage of the adult social care reforms – market sustainability - has been allocated for 2022/23. £600M is to be made available in 2023/24 and 2024/25, however allocations at local authority level have not yet been announced.
- Council tax referendum limits are as outlined in the spending review – up to 2% 'core' increase and 1% flexibility for the adult social care precept.
- Work on reviewing how local government funding will be distributed in future years will begin again in 2022, including updating assessments of needs and resources. Most of the data to make the current assessment dates back to 2013/14 and some as far back as 2000. The 2022/23 Services Grant will be excluded from any transitional support arrangements as a result of any proposed system changes i.e. there will be no protection for loss of this element of the funding In future occurring via grant distribution changes implemented by Government.

For Southampton the impact of the settlement in terms of grant funding is included in the Council resources outlined in Section 1.

2.3.3 Financial outlook for 2023/24 and after

The additional grant funding for local government announced in the Autumn Budget Spending Review 2021 (excluding the element for social care reform) is entirely front loaded in 2022/23, with no growth in funding in later years. Any growth in resources for local government in 2023/24 and 2024/25 will have to come from council tax increases.

In the provisional finance settlement the Government signalled its intentions to begin work again in the coming months on reforming the local government finance settlement. In particular, updating the assessment of needs and resources using more up to date data. This work will include options for transitional protection arrangements, however the new 2022/23 Services Grant is specifically excluded from any potential transitional protection.

For the Business Rates Retention Scheme, an increase in the proportion of business rates retained locally is now looking less likely. However other changes, such as resetting the business rates baselines, could still be implemented and would have an impact on the distribution of government funding at a local level.

The major budget pressures felt across adults and children's social care remain key factors in the sustainability of local government finance. It remains to be seen whether the funding being made available for the social care reforms announced in September and December 2021 will be sufficient to meet the costs that will be borne by local government. With the changes in the adult social care "cap" and capital limits and market equalisation proposals set to take effect from October 2023 this will be a key issue for 2023/24 and later years.

Conclusion

This MTFS provides a robust framework for setting the budget for 2022/23 and highlighting the need to take action to ensure the Council can continue to be financially sustainable over the medium term. The current forecast position is extremely challenging, with additional budgetary pressures, particularly in social care, outstripping the funding available. Responding to the COVID-19 pandemic has been the key focus over the last 2 years, which has inevitably meant taking some short term measures such as the use of reserves to balance the budget. However, many of the budget pressures faced are ongoing, therefore action will need to be taken to find longer term solutions for addressing the future years' budget shortfalls.

The MTFS will be kept under regular review, and funding assumptions will be updated where Government announcements provide more clarity on funding beyond 2022/23. Irrespective of those announcements, the Council will pursue a policy of economic growth, income generation and maximising its efficiency to help offset the budgetary pressures faced.

MEDIUM TERM FINANCIAL FORECAST MODEL

GENERAL FUND REVENUE ACCOUNT

Approved Budget As at Feb 2021	2021/22			2022/23			2023/24			2024/25			2025/26		
	Approved 2021/22 Budget	Forecast Changes	Revised 2021/22 Budget	Approved 2022/23 Budget	Forecast Changes	Revised 2022/23 Budget	Approved 2023/24 Budget	Forecast Changes	Revised 2023/24 Budget	Approved 2024/25 Budget	Forecast Changes	Revised 2024/25 Budget	Approved 2025/26 Budget	Forecast Changes	Revised 2025/26 Budget
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
Growth	12.61	5.40	18.02	14.71	1.94	16.65	14.26	1.84	16.10	14.26	1.28	15.54	14.26	1.17	15.43
Wellbeing	132.78	7.22	139.99	131.95	4.75	136.70	131.70	(1.64)	130.05	131.51	(2.78)	128.73	131.51	(2.58)	128.93
Communities, Culture & Heritage	10.53	0.26	10.79	9.13	(0.79)	8.34	9.08	(1.13)	7.95	9.08	(1.30)	7.78	9.08	(1.30)	7.78
Our Greener City	5.22	0.59	5.81	4.90	0.11	5.00	4.90	(0.04)	4.86	4.90	(0.04)	4.86	4.90	(0.04)	4.86
A council that works for and with you	37.39	2.07	39.46	34.16	1.40	35.56	33.93	0.23	34.16	33.54	0.33	33.87	33.54	0.33	33.87
Other Inflationary Pressures	5.05	0.00	5.05	4.86	1.16	6.02	6.29	5.02	11.31	11.36	5.14	16.50	11.36	10.36	21.72
Programme Expenditure	**203.58**	**15.54**	**219.12**	**199.71**	**8.56**	**208.27**	**200.16**	**4.26**	**204.42**	**204.65**	**2.63**	**207.28**	**204.65**	**7.93**	**212.58**
Capital Asset Management	8.66	0.10	8.76	12.68	(1.08)	11.60	15.14	0.35	15.49	15.52	0.62	16.14	15.52	0.62	16.14
Levies & Contributions	0.09	0.00	0.09	0.09	0.00	0.09	0.09	0.00	0.09	0.09	0.00	0.09	0.09	0.00	0.09
Other Expenditure & Income & Centrally Held Allocations	5.62	(1.91)	3.71	4.69	0.27	4.96	4.83	0.27	5.10	4.83	0.30	5.13	4.83	0.32	5.15
Transfer to/from Reserves	(44.09)	(13.72)	(57.82)	(4.80)	(27.07)	(31.87)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Revenue Expenditure	**173.85**	**(0.00)**	**173.85**	**212.36**	**(19.32)**	**193.05**	**220.22**	**4.88**	**225.10**	**225.08**	**3.55**	**228.63**	**225.08**	**8.86**	**233.95**
Funding															
Contribution to/from General Fund Balances	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Council Tax (including Adult Social Care Precept)	(105.88)	0.00	(105.88)	(107.99)	(0.78)	(108.77)	(110.37)	(1.02)	(111.39)	(113.36)	(0.94)	(114.30)	(113.36)	(4.38)	(117.75)
Collection Fund Surplus/Deficit - Council Tax	2.20	0.00	2.20	0.22	(2.69)	(2.47)	0.22	0.00	0.22	0.00	0.00	0.00	0.00	0.00	0.00
Business Rates	(48.83)	0.00	(48.83)	(50.72)	6.05	(44.67)	(52.15)	(0.73)	(52.89)	(53.50)	(0.72)	(54.22)	(53.50)	(2.01)	(55.51)
Collection Fund Surplus/Deficit - Business Rates	25.59	0.00	25.59	0.98	10.92	11.89	0.98	0.00	0.98	0.00	0.00	0.00	0.00	0.00	0.00
Business Rates Retention Pool Growth Funding	(3.32)	0.00	(3.32)	0.00	0.00	0.00	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue Support Grant	(11.02)	0.00	(11.02)	(11.02)	(0.34)	(11.37)	(11.02)	(0.34)	(11.37)	(11.02)	(0.34)	(11.37)	(11.02)	(0.34)	(11.37)
Top Up Grant/Tariff Payment	(4.63)	0.00	(4.63)	(4.63)	0.00	(4.63)	(4.63)	0.00	(4.63)	(4.63)	0.00	(4.63)	(4.63)	0.00	(4.63)
New Homes Bonus	(1.51)	0.00	(1.51)	(0.68)	(0.24)	(0.91)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
S31 Business Rates Grants	(5.35)	0.00	(5.35)	(5.69)	(8.80)	(14.49)	(5.76)	(3.13)	(8.89)	(5.93)	(3.12)	(9.06)	(5.93)	(3.31)	(9.24)
Other Non-Specific Government Grants	(21.10)	0.00	(21.10)	(10.31)	(7.32)	(17.63)	(10.17)	(3.53)	(13.70)	(10.06)	(3.54)	(13.60)	(10.06)	(3.45)	(13.51)
Total Funding	**(173.85)**	**0.00**	**(173.85)**	**(189.84)**	**(3.21)**	**(193.05)**	**(192.91)**	**(8.76)**	**(201.67)**	**(198.51)**	**(8.66)**	**(207.17)**	**(198.51)**	**(13.49)**	**(212.00)**
Savings Requirement	**0.00**	**(0.00)**	**0.00**	**22.52**	**(22.52)**	**0.00**	**27.31**	**(3.88)**	**23.43**	**26.57**	**(5.12)**	**21.46**	**26.57**	**(4.63)**	**21.95**

Agenda Item 11
Appendix 3

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General Fund Earmarked Reserves (excluding Schools Balances)

	Balance As At 31/03/2021	Forecast Balance As At 31/03/2022	Forecast Balance As At 31/03/2023	Forecast Balance As At 31/03/2024	Forecast Balance As At 31/03/2025	Forecast Balance As At 31/03/2026	Uncommitted Corporate Reserves As At 31/03/2026
	£M	£M	£M	£M	£M	£M	£M
Medium Term Financial Risk Reserve	59.79	45.31	32.65	32.65	32.65	32.65	32.65
Digital Strategy Reserve	2.23	0.00	0.00	0.00	0.00	0.00	
Revenue Contributions to Capital	1.62	0.86	0.86	0.86	0.86	0.86	
Social Care Demand Risk Reserve	11.61	0.00	0.00	0.00	0.00	0.00	
Revenue Grants Reserve	35.04	18.85	0.00	0.00	0.00	0.00	
Portfolio Carry Forwards	6.06	0.36	0.00	0.00	0.00	0.00	
PFI Sinking Fund	4.53	4.41	4.20	3.82	3.82	3.82	
Insurance Reserve	2.66	2.79	2.79	2.79	2.79	2.79	
On Street Parking	2.82	1.91	2.11	2.40	2.40	2.40	
Other Reserves	4.01	3.05	2.84	2.97	3.11	3.25	
Total	**130.38**	**77.55**	**45.45**	**45.49**	**45.63**	**45.77**	**32.65**

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Appendix 5

HOUSING REVENUE ACCOUNT	2021/22 Budget £M	2021/22 Forecast Q3 £M	2022/23 Budget £M	2023/24 Budget £M
Responsive repairs	12.15	12.15	13.27	13.45
Cyclical maintenance	4.97	4.57	7.36	7.72
Rents payable	0.10	0.10	0.10	0.11
Debt management	0.09	0.09	0.08	0.10
Supervision & management	24.94	23.47	25.06	25.36
Interest & principal repayments	8.83	8.44	5.15	5.96
Depreciation	20.92	21.55	23.76	24.70
Direct revenue financing of capital	3.88	4.36	2.55	1.14
Total Expenditure	**75.87**	**74.73**	**77.33**	**78.53**
Dwelling rents	(71.38)	(71.15)	(71.84)	(73.76)
Other rents	(1.20)	(1.20)	(1.18)	(1.23)
Service charge income	(2.34)	(2.34)	(2.34)	(2.43)
Leaseholder service charges	(0.95)	(0.95)	(1.05)	(1.11)
Interest received	(0.01)	(0.01)	0.00	0.00
Total Income	**(75.87)**	**(75.65)**	**(76.41)**	**(78.53)**
Savings Requirement	0.00	0.00	0.00	0.00
(Surplus) /Deficit for the Year	**0.00**	**(0.92)**	**0.92**	**0.00**

2024/25 Budget £M	2025/26 Budget £M
13.50	13.76
7.98	8.21
0.11	0.11
0.12	0.13
25.95	26.43
6.89	7.29
25.36	26.01
0.73	0.71
80.63	**82.65**
(75.74)	(77.65)
(1.26)	(1.28)
(2.48)	(2.52)
(1.16)	(1.20)
0.00	0.00
(80.63)	**(82.65)**
0.00	0.00
0.00	**0.00**

CIPFA financial management standards

Section 1: The responsibilities of the chief finance officer and leadership team

A The leadership team is able to demonstrate that the services provided by the authority provide value for money.

B The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.*

Section 2: Governance and financial management style

C The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

D The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).

E The financial management style of the authority supports financial sustainability.

Section 3: Long to medium-term financial management

F The authority has carried out a credible and transparent financial resilience assessment.

G The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.

H The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.

I The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

Section 4: The annual budget

J The authority complies with its statutory obligations in respect of the budget setting process.

K The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.

Section 5: Stakeholder engagement and business plans

L The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

M The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

Section 6: Monitoring financial performance

N The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

O The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.

Section 7: External financial reporting

P The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom.*

Q The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

SOUTHAMPTON CITY COUNCIL
COUNCIL TAX CALCULATION 2022/23

	2021/22 £M	2022/23 £M	Change £M	Change %
Budget Requirement (a)	**173.85**	**193.05**	**19.19**	**11.04%**
Less Non Domestic Rating Income	(52.15)	(44.67)		
Less Business Rates S31 Grants	(5.35)	(14.49)		
Less Top Up Payment/Plus Tariff	(4.63)	(4.63)		
Less Revenue Support Grant	(11.02)	(11.37)		
Other Central Grant Funding	(22.61)	(18.54)		
Aggregate External Finance	(95.76)	(93.70)	2.07	-2.16%
Deficit/(Surplus) on Council Tax Collection Fund	2.20	(2.47)		
Deficit/(Surplus) on Business Rates Collection Fund	25.59	11.89		
Net General Grant Income & Business Rates (b)	(67.97)	(84.28)	(16.30)	23.98%
Amount to be met from Council Tax (a - b)	**105.88**	**108.77**	**2.89**	**2.73%**
Tax base	64,389.0	66,146.0	1,757.0	2.73%
Basic amount of Council Tax (Band D)	**1,644.39**	**1,644.39**	**0.00**	**0.00%**
Last years Council Tax		1,644.39		
Council Tax - General Increase	0.00%	0.00		
Council Tax - Adult Social Care Precept	0.00%	0.00		
Total Annual Cash Increase		0.00		
Total Increase (%)		0.00%		

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COLLECTION FUND ESTIMATES 2022/23

	2021/22 £000	2022/23 £000	Change £000	Change %
Southampton City Council Precept	105,880.6	**108,769.8**	2,889.2	2.73%
Hampshire Police Precept	14,581.5	**15,640.9**	1,059.4	7.27%
Fire and Rescue Services Precept	4,534.9	**4,989.4**	454.5	10.02%
Income due from Council Tax Payers	124,997.1	**129,400.1**	4,403.0	3.52%
Tax Base for Area	64,389.0	**66,146.0**	1,757.0	2.73%
Basic Amount of Tax for Band D Property	1,941.28	**1,956.28**	**15.00**	**0.77%**

SCC Council Tax increase per Property Band 2022/23

Band	SCC Band Charge 2021/22	Council Tax Increase 0.00%	SCC Band Charge 2022/23	Police Band Charge 2022/23	Fire & Rescue Band Charge 2022/23	Total 2022/23
A	£1,096.26	0.00	£1,096.26	£157.64	£50.29	£1,304.19
B	£1,278.97	0.00	£1,278.97	£183.91	£58.67	£1,521.55
C	£1,461.68	0.00	£1,461.68	£210.19	£67.05	£1,738.92
D	£1,644.39	0.00	£1,644.39	£236.46	£75.43	£1,956.28
E	£2,009.81	0.00	£2,009.81	£289.01	£92.19	£2,391.01
F	£2,375.23	0.00	£2,375.23	£341.55	£108.95	£2,825.73
G	£2,740.65	0.00	£2,740.65	£394.10	£125.72	£3,260.47
H	£3,288.78	0.00	£3,288.78	£472.92	£150.86	£3,912.56

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Government Grants

	2021/22 Revised Estimate £M	2022/23 Estimate £M
General Government Grants		
Revenue Support Grant	11.02	11.37
Business Rates Retention Top-up	4.63	4.63
S31 Business Rates Grants	21.38	14.49
Social Care Grant	8.45	11.53
New Homes Bonus*	1.51	
Services Grant		3.82
COVID-19 Local Authority Support Grant	7.82	
COVID-19 Fees & Charges Compensation	1.04	
COVID-19 Local Council Tax Support Grant	2.82	
Other grants less than £1M	3.09	3.28
	61.76	49.11
Service Specific Government Grants		
Dedicated Schools Grant	143.75	143.75
Housing Benefit Grant	64.81	64.81
Public Health Grant	17.39	17.39
Improved Better Care Fund	10.39	10.70
Pupil Premium	9.40	9.40
Private Finance Initiative (PFI)	5.86	5.86
Rough Sleeper Initiative	1.43	1.30
Homelessness Prevention Grant	1.29	1.29
Unaccompanied Asylum Seeking Children	1.21	1.21
Universal Infants Free School Meals	1.21	1.21
COVID-19 grants to support businesses	23.78	
COVID-19 grants to support individuals	5.92	
COVID-19 Adult Social Care Infection Control Fund	2.25	0.24
COVID-19 Workforce Recruitment and Retention Fund	2.14	
COVID-19 Contain Outbreak Management Fund	2.02	
COVID-19 Rapid Testing Fund	1.51	
COVID-19 Holiday Activities and Food Programme	1.08	
Other grants less than £1M	12.42	5.75
	307.84	262.89
Total Government Grants	**369.60**	**312.00**

* New Homes Bonus is less than £1M in 2022/23

A full list of government COVID-19 grants received in 2021/22 is included in the the Financial Monitoring to the end of December 2021 report

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Executive Commitments

Ref.	Description of Commitment	Portfolio	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
22E1	Transport plan feasibility work	Growth	100	50		
22E2	Promoting economic growth and investment	Growth	50	50		
22E3	Delivering 1,000 new parking spaces across our city's estate - project work	Growth	15			
22E4	Highways (pothole repairs investment)	Customer Service & Transformation	500			
22E5	Improve our health and learning for our children and adults across the city	Education	150	150	150	150
22E6	Leisure Strategy	Finance & Capital Assets	137	69	69	69
22E7	Clean up our city - improving our parks, open spaces waterfronts and city/district centres	Customer Service & Transformation	300	300	300	300
22E8	Increased enforcement against fly tipping	Environment	120	120	120	120
22E9	Car Park charges	Growth	337	87	37	37
22E10	Rebate on resident parking permit	Growth	13	13	13	13
22E11	Community Fund	Communities, Culture & Heritage	280			
22E12	Destination management	Communities, Culture & Heritage	100	100	100	100
22E13	Freeze council tax charge for 1 year	Funding	2,129	2,188	2,253	2,314
22E14	Capital Financing for new initiatives	Capital Asset Management	700	1,400	1,400	1,400
	TOTAL COMMITMENTS		**4,931**	**4,527**	**4,442**	**4,503**

Budget Pressures

Ref.	Description of Pressure	Portfolio	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
	Additional Costs					
22P1	Destination 22 staffing growth - Early Help	Children's Social Care	225	225	225	225
22P2	Destination 22 staffing growth - Young People	Children's Social Care	592	592	592	592
22P3	Destination 22 staffing growth - Children Looked After	Children's Social Care	386	386	386	386
22P4	Children's Social Care - unfunded service critical posts	Children's Social Care	719	719	719	719
22P5	Children's Social Care - Youth Offending Service posts	Children's Social Care	180	180	180	180
22P6	Disability Service unfunded posts	Education	475	475	475	475
22P7	Children's Social Care - Placement spend	Children's Social Care	4,332	4,332	4,332	4,332
22P21	Children's Social Care - Agency staffing	Children's Social Care	1,779	1,779	1,779	1,779
22P22	Children's Social Care - Preventative services	Children's Social Care	328	328	328	328
22P9	Enhancing Behaviour Resilience Service / Children & Adolescent Mental Health Services	Children's Social Care	227	227	227	227
22P10	Children's Social Care - Residential units	Children's Social Care	190	2,376	2,418	2,460
22P11	Workforce Academy	Children's Social Care	368	157	180	157
22P12	Destination 22 programme and project resources	Children's Social Care	278	278	0	0
22P13	City of Culture	Communities, Culture & Heritage	100	100	100	100
22P14	800th Mayoral year event programme and increased support for the Mayor's Office	Customer Service & Transformation	106	62	62	62
22P17	Adults Social Care demography - ageing population leading to a subsequent increase in demand for Social Care services	Health & Adults		690	1,380	2,070
22P18	Adults Social Care staffing pressures relating to a range of service improvements to increase the quality and resilience of the Social Care service	Health & Adults	996	996	996	996
22P19	Adults Social Care staffing pressures - Learning Disabilities Housing team	Health & Adults	129	273	273	273
22P20	Members allowances - increase in the size of the Cabinet	Customer Service & Transformation	40	40	40	40
22P23	Transition to Care Director system	Health & Adults	30			
22P24	Increase council tax collection activity	Finance & Capital Assets	110	110	110	110
22P25	Waste Operations - new staffing model	Customer Service & Transformation	546	546	546	503
22P26	Waste Operations - transformation costs	Customer Service & Transformation	549	350	150	100
22P27	Waste volumes due to City growth	Customer Service & Transformation	160	250	350	450
22P28	Household waste recycling centre contract retendering	Customer Service & Transformation		50	50	
22P29	Additional Business Support resources	Customer Service & Transformation	106			
22P33	Mayflower Park concept design	Growth	522			
22P34	Children's Social Care - Refer a Friend Scheme	Children's Social Care	15	15	15	15
22P35	Proposed warding patterns - Southampton Electoral Review	Customer Service & Transformation		46	46	46
22P36	Children's Social Care - Other service pressures	Children's Social Care	50	50	50	50
22P38	Delivery of People Strategy	Leader	90	90	90	90
22P40	Revenue costs of District Centre Improvements scheme	Growth	20	20		
	Total Additional Costs		**13,645**	**15,741**	**16,098**	**16,764**
	Loss of Income					
22P8	PAUSE - Preventing children going into care (post govt funding)	Children's Social Care	144	245	245	245
22P16	Property income rebasing	Growth	880	880	880	880
22P32	Investment Properties - loss of rental income	Finance & Capital Assets	165	145	125	125
	Total Loss of Income		**1,189**	**1,270**	**1,250**	**1,250**
	TOTAL BUDGET PRESSURES		**14,834**	**17,011**	**17,348**	**18,014**
	Less: Use of MTFR Reserve to meet Social Care pressures		(3,711)			
	TOTAL NET BUDGET PRESSURES		**11,123**	**17,011**	**17,348**	**18,014**

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Savings Proposals

Ref.	Description of Proposal	Impact of Proposal	Portfolio	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Full Year Impact £000	Estimated Staffing Impact FTE
	Efficiency Savings								
22S1	Children's Social Care - residential unit projections	Better control over costs and better support for the children by the service.	Children's Social Care	(219)	(2,912)	(3,055)	(3,205)	(3,205)	
22S2	Children's Social Care - agency reductions	A spend reduction with the benefit that there will be less changing of social work staff to the children they support.	Children's Social Care	(770)	(1,715)	(2,201)	(2,201)	(2,201)	
22S3	Children's Social Care - potential staff reductions	Reduction in staffing costs without service impact.	Children's Social Care	0	(545)	(1,090)	(1,090)	(1,090)	21.4 vacant posts
22S4	Specialist Foster Carers	The ability to step down Residential placements to these foster carers.	Children's Social Care	(241)	(784)	(784)	(784)	(784)	
22S5	Fostering	Better recruitment and retention and savings from not having to use higher costing Independent Foster Carers.	Children's Social Care	(173)	(432)	(777)	(1,123)	(1,123)	
22S6	Children's Social Care - residential case reductions	Significant reduction in spend as Residential placement are the highest costing in the service.	Children's Social Care	(2,061)	(6,050)	(6,050)	(6,050)	(6,050)	
22S7	Looked After Children projections	Less Looked After Children (LAC) cases for better social care service and reduced cost from less LAC placements	Children's Social Care	(744)	(2,233)	(2,233)	(2,233)	(2,233)	
22S11	Customer Services - Non staff spend/Vacant posts deletion	No impact on services	Customer Service & Transformation	(20)	(20)	(20)	(20)	(20)	0.3 vacant post
22S13	Facilities - cleaning contract consolidation & reduced non staff spend	Positive - standardisation of approach	Customer Service & Transformation	(55)	(55)	(55)	(55)	(55)	
22S14	Stretch Contract Management and Procurement Savings	No impact on services	Customer Service & Transformation	(200)	(200)	(200)	(200)	(200)	
22S15	Review allocation of Procurement Team time	No impact on services	Customer Service & Transformation	(100)	(100)	(100)	(100)	(100)	
22S19	Restructure deputyships and appointeeship services	Bring Deputyships back in house, enabling a £90k saving on contract and the ability to generate revenue for account management. To manage this would entail an increase in staff. Full details are being worked on to ensure that the proposal is viable. It is anticipated that there would be £150k additional income and £90k savings but this would mostly be offset with a new resource requirement. There is a likelihood that Appointeeship and Deputyships may well end up in ASC. No impact on services.	Finance & Assets	(5)	(5)	(5)	(5)	(5)	
22S21	Shared services (e.g. VAT advice or Risk Management)	To look at using our expertise in these areas as shared service proposition for other authorities to utilise	Finance & Assets	(10)	(10)	(10)	(10)	(10)	
22S22	St Mary's Leisure Centre closure	This saving is subject to consultation at the time of writing, where potentially leisure services may no longer be delivered from the St Mary's Leisure Centre building. A range of mitigations are available to enable, should this go ahead, for the local community to access sport and recreation activities. This saving will be subject to a separate formal decision in March.	Finance & Assets	(148)	(148)	(148)	(148)	(148)	
22S23	Local Government Pension Scheme saving from lump sum upfront payment	Adjust saving to be in line with actual experience based on the first year of making an annual payment upfront and receiving a discount	Finance & Assets	(180)	(180)	(180)	(180)	(180)	
22S32	Partnership Delivery Models	Increased efficiency through joint working. The specific impacts will be considered as the new service delivery models are developed. The target is to provide savings of 10% on existing budgets.	Growth			(165)	(165)	(165)	
22S33	Property Budget	Reduced base budget for corporate building repairs and maintenance. These budget have been utilised to help manage the pressures on recharge income over the last few years. The income pressure is being incorporated to budget planning for 2022/23 so this saving is to reflect that actual spend has been below existing budget levels over that period. No impact on recent level of actual repairs is expected.	Growth	(587)	(587)	(587)	(587)	(587)	
22S34	Decarbonisation Measures	Energy efficiency measures to buildings and streetlighting reducing energy consumption.	Growth	(237)	(385)	(385)	(385)	(385)	
22S40	Adult Social Care - Contract Reviews		Health & Adults	(600)	(1,044)	(1,044)	(1,044)	(1,044)	
22S43	Leaders Budget reduction		Leader	(30)	(30)	(30)	(30)	(30)	

Ref.	Description of Proposal	Impact of Proposal	Portfolio	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Full Year Impact £000	Estimated Staffing Impact FTE
22S44	Waste Operations - eco driving	Potential saving in fuel costs and repairs from using defensive driving techniques to increase fuel efficiency.	Customer Service & Transformation	(20)	(20)	(20)	(20)	(20)	
22S46	Reduced residual waste bin size	Increase in recycling rate as residual waste capacity is reduced. This reduces the cost of waste disposal.	Customer Service & Transformation			(40)	(50)	(50)	
22S47	Reduce waste contamination rate	Contaminated recycling material has to been treated as residual waste which incurs higher disposal costs and reduces income from sale of recyclable materials.	Customer Service & Transformation	(20)	(40)	(60)	(80)	(80)	
22S48	Waste Operations - service improvements	Reduced waste collection costs from service improvements such as optimising routes, utilising software, reduced vehicle costs and reduced agency staffing budget.	Customer Service & Transformation	(90)	(340)	(610)	(620)	(620)	
22S52	Home to school transport	Reduction of transport costs - taxis for high needs pupils	Education		(60)	(120)	(120)	(120)	
22S53	Legal Services saving	No impact on services	Customer Service & Transformation	(57)	(57)	(57)	(57)	(57)	1.0
22S54	Children's Social Care - Refer a Friend Cost Reductions	Recruitment to permanent posts within Children's Social Care and reduced dependency on independent foster care agencies	Children's Social Care	(308)	(616)	(616)	(616)	(616)	
	Total Efficiency Savings			**(6,874)**	**(18,567)**	**(20,641)**	**(21,176)**	**(21,176)**	**21.7**
	Income Generation								
22S9	Cultural Services Venues (Income) - stretch target	To increase the income target through improved marketing and pricing strategy Created a more resilienct team structure (from within existing resources) to provide better capacity for this work.	Communities, Culture & Heritage	(300)	(300)	(300)	(300)	(300)	
22S16	Bereavement Services Income Generation	To increase the income target following a review of fees and charges, better engagement and marketing in the sector following the refurbishment of the crematorium by early 2022, and review of future business options.	Environment	(100)	(100)	(100)	(100)	(100)	
22S17	Registration Services - Ceremonies income generation	Ceremonies were adversely affected by the pandemic in 2020/21 and the financial plan assumed continued impact into 2022/23. The proposal takes advantage of increasing demand for ceremonies, recent redesign of the way the team is structured, a review of digital and other enablers for customers and a refreshed marketing strategy.	Environment	(60)	(60)	(60)	(60)	(60)	
22S18	Port Health Income	Proposal to increase resource at the port to be able to take advantage of increasing trade through the Border Inspection post.	Environment	(30)	(30)	(30)	(30)	(30)	
22S25	Parking income estimates	The budget process included an assumption that car parking and Itchen Bridge would continue to be impacted as a result of behaviour change post pandemic. This assumption has been reviewed based on performance in the first half of 2021/22, allowing the income target to be increased.	Growth	(250)	(250)	(250)	(250)	(250)	
22S27	Albion St/Castle St car park income	Review of existing MTFS assumption that Albion and Castle Street car parks would close from April 2022 following the implementation of Transforming Cities Fund works. The closure date is not expected until January 2023 and the budget is proposed to be revised accordingly.	Growth	(320)					

Ref.	Description of Proposal	Impact of Proposal	Portfolio	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Full Year Impact £000	Estimated Staffing Impact FTE
22S28	Civic Centre car park income	Review of existing MTFS assumption that Civic Centre car park would close from April 2022 dollowing implementation of Transforming Cities Fund works. The Civic Centre car park is outside the scope of TCF and the budget is proposed to be revised accordingly.	Growth	(100)	(100)	(100)	(100)	(100)	
22S29	Cruise ship car parking	Intention to increase income by targeting cruise ship customers. Proposal to utilise Eastgate car park, offer attractive tariff to attract customers to park cars there while on cruise	Growth	(50)	(50)	(50)	(50)	(50)	
22S41	Corporate Communications - advertising income	None	Customer Service & Transformation	(80)	(80)	(80)	(80)	(80)	
22S45	Trade Waste	Net increase in income from additional charges to customers or removal of customers where waste disposal charges are greater than income collected.	Customer Service & Transformation	(60)	(200)	(200)	(200)	(200)	
22S49	Income from Dry Mixed Recyclables	Increase in income from sales of recycled material on the secondary market.	Customer Service & Transformation	(200)	(200)	(230)	(260)	(260)	
22S50	Increase number of Green Waste customers	Increase in income from additional customer base.	Customer Service & Transformation	(22)	(22)	(22)	(22)	(22)	
22S51	Education pyschologists	Increase in income	Education	(15)	(25)	(25)	(25)	(25)	
22S55	Increase Southampton Golf Course income	Income target is increased to reflect expected performance.	Customer Service & Transformation	(85)	(85)	(85)	(85)	(85)	
	Total Income Generation			**(1,672)**	**(1,502)**	**(1,532)**	**(1,562)**	**(1,562)**	**0**
	<u>Other Savings</u>								
22S24	Capital Financing	Reduction in capital financing costs from changes to the Capital Programme	Capital Asset Management	(1,383)	(653)	(383)	(383)	(383)	
22S26	Itchen Bridge reserve contribution	To cease contributions to reserve, thereby freeing resources in the short term. Contributions have historically paid for maintenance work to the Bridge; major capital works identified would instead be approved via the same capital programme approvals process as other projects and would require alternative funding as a result of this proposal.	Growth	(190)	(190)				
22S30	Concessionary fares	Reduced operator claims linked to reduced patronage related to Covid-19, a prudent forecast has be taken but should patronage increase to pre-pandemic levels this target could be impacted	Growth	(350)					
22S56	Change in capital financing policy re new Code of Practice	Reduction in estimated capital financing costs	Capital Asset Management	(400)	(400)	(400)	(400)	(400)	
	Total Other Savings			**(2,323)**	**(1,243)**	**(783)**	**(783)**	**(783)**	**0**
	TOTAL SAVINGS			**(10,869)**	**(21,312)**	**(22,956)**	**(23,521)**	**(23,521)**	**21.7**

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Movements in Budget Shortfall - December 2021 Cabinet Report to February 2022

Movements	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Comments
Budget shortfall from December 2021 Cabinet report	**9,010**	**25,268**	**24,816**	**25,759**	
Changes to Budget Pressures:					
Children's Social Care - Placement spend	2,352	2,352	2,352	2,352	
Children's Social Care - Agency staffing	1,359	1,359	1,359	1,359	
Children's Social Care - Preventative services	(542)	(542)	(542)	(542)	Costs reviewed and updated in light of latest financial monitoring information
Children's Social Care - Refer a Friend Scheme	15	15	15	15	
Children's Social Care - Other service pressures	50	50	50	50	
Children's Social Care - Residential units	(881)	579	221	200	Review and rephasing of costs
Adults Social Care staffing pressures - Learning Disabilities Housing team	(144)				Part of 2022/23 costs to be met from LD Housing Reserve
Transition to Care Director system	30				Rephasing of costs from 2021/22 into 2022/23
Waste Operations - new staffing model	546	546	546	503	New staffing structure and temporary costs to enable service improvement
Waste Operations - transformation costs	549	350	150	100	
Waste volumes due to City growth	160	250	350	450	
Household waste recycling centre contract retendering		50	50		
Additional Business Support resources	106				Temporary additional staffing to meet increased demand
Investment Properties - loss of rental income	165	145	125	125	
Mayflower Park concept design	522				
Proposed warding patterns - Southampton Electoral Review		46	46	46	
Delivery of People Strategy	90	90	90	90	
Revenue costs of District Centre Improvements scheme	20	20			
Total Changes to Budget Pressures	**4,397**	**5,310**	**4,812**	**4,748**	
Changes to Savings Proposals:					
Children's Social Care - residential unit projections	1,029	182	194	207	Review and rephasing
Children's Social Care - agency reductions	81	(68)	(689)	(689)	
Children's Social Care - potential staff reductions		(206)	(339)	(339)	
Fostering	170	82	(92)	(437)	
Children's Social Care - residential case reductions	(1,555)	(5,519)	(5,519)	(5,519)	Anticipated reduction in number of cases
Looked After Children projections	319	(108)	(108)	(108)	
Children's Social Care - Refer a Friend Cost Reductions	(308)	(616)	(616)	(616)	Agency staffing and foster care cost reductions
Adult Social Care - Contract Reviews	695	695	695	695	
Capital Financing - reduction in costs from changes to the Capital Programme	(233)	(343)	(153)	(153)	Revisions to the capital programme
Waste Operations - eco driving	(20)	(20)	(20)	(20)	
Reduced residual waste bin size			(40)	(50)	Efficiency measures to reduce costs of Waste Operations
Reduce waste contamination rate	(20)	(40)	(60)	(80)	
Waste Operations - service improvements	(90)	(340)	(610)	(620)	
Trade Waste	(60)	(200)	(200)	(200)	
Income from Dry Mixed Recyclables	(200)	(200)	(230)	(260)	Additional Waste Operations income from sales/charges
Increase number of Green Waste customers	(22)	(22)	(22)	(22)	
Home to school transport		(60)	(120)	(120)	Reduced costs from enabiling more independent travel
Education pyschologists	(15)	(25)	(25)	(25)	Additional income from traded services
Legal Services saving	(57)	(57)	(57)	(57)	Reduced workload
Increase Southampton Golf Course income	(85)	(85)	(85)	(85)	Expected improvement in performance
Change in capital financing policy re new Code of Practice	(400)	(400)	(400)	(400)	
Total Changes to Savings Proposals	**(771)**	**(7,350)**	**(8,496)**	**(8,898)**	

Movements	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Comments
Changes to Inflation Estimates					
Contract inflation	142	326	332	339	
1.25% increase in employers National Insurance Contributions	1,131	1,131	1,131	1,131	
Update of pay award estimates	1,711	2,871	2,982	3,095	To 2.5% for 2022/23 and 2.0% for 2023/24
Total Changes to Inflation Estimates	**2,984**	**4,328**	**4,445**	**4,565**	
Change in Use of Reserves					
Grant carried forward for Collection Fund deficit timing differences	(16,030)				
Other net use of reserves	(7,187)				
Total Changes in Use of Reserves	**(23,217)**	**0**	**0**	**0**	
Changes to Government Grants					
Increase in Social Care Grant	(3,075)	(3,075)	(3,075)	(3,075)	
2022/23 Services Grant	(3,816)				
Changes to other grant estimates from provisional finance settlement	(602)	(365)	(365)	(365)	Revenue Support Grant, New Homes Bonus, Lower Tier Services Grant
Changes to other non-ringfenced grants estimates	(409)	(431)	(441)	(349)	Mostly Housing Benefit Administration Subsidy Grant
Total Changes to Government Grants	**(7,902)**	**(3,872)**	**(3,881)**	**(3,790)**	
Changes to council tax and business rates estimates					
Update to Collection Fund - 2021/22 business rates deficit	15,835				Mostly expanded retail discount scheme and COVID-19 additonal relief scheme
Update to business rates income estimates	(336)	(253)	(240)	(437)	
Total Changes to Collection Fund estimates	**15,499**	**(253)**	**(240)**	**(437)**	
Revised budget shortfall	**(0)**	**23,431**	**21,457**	**21,947**	

Numbers are rounded

THE CAPITAL STRATEGY & GENERAL FUND PROGRAMME 2021/22 TO 2026/27

INTRODUCTION

1. The purpose of this report is to update the Capital Strategy and to inform Council of any major changes in the overall General Fund (GF) Capital Programme for the period of 2021/22 to 2026/27, highlighting the changes in the programme since the last reported position to Cabinet in February 2022.

The net result of the changes since the previous report is a decrease to the General Fund programme of £2.02M.

THE FORWARD CAPITAL PROGRAMME

2. Table 1 shows a comparison of the latest capital expenditure for the period 2021/22 to 2026/27 compared to the previously reported programme.

Table 1 – Programme Comparison

Reported Programme	**2021/22 £M**	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**	**2025/26 £M**	**2026/27 £M**	**Total £M**
Latest	89.30	148.85	88.44	42.31	24.60	32.70	426.20
Previous	156.33	195.19	49.20	22.17	5.33	0.00	428.21
Variance	**(67.03)**	**(46.34)**	**39.24**	**20.13**	**19.28**	**32.70**	**(2.02)**

NB: Table include rounded figures

3. Table 2 below details the General Fund Capital Programme by portfolio and shows the decrease of £2.02M to a total of £426.20M.

4. Paragraph 5 and annex 2.1 summarise the new schemes and changes to existing schemes by individual portfolio programmes.

CHANGES TO THE PROGRAMME

5. Table 2 – Changes in Portfolio Programmes

	Latest Programme £M	**Previous Programme £M**	**Total Net Change £M**
Communities, Culture & Heritage	36.95	36.65	0.30
Customer Service & Transformation	31.32	26.92	4.40
Education & Children's Social Care	96.81	99.90	(3.08)
Environment	13.45	13.45	0.00
Finance & Capital Assets	5.73	6.58	(0.85)
Growth	240.84	244.23	(3.39)
Health & Adult Social Care	1.09	0.48	0.61
Total GF Capital Programme	**426.20**	**428.21**	**(2.02)**

NB: Table include rounded figures

6. New additions total £88.79M and are offset by reductions to the programme of £90.80M. Details of the major projects are given in paragraphs 13-38.

7.	Approval is sought for the addition and spend of £30.35M to the General Fund programme to be funded as set out in annex 2.1.
8.	Approval is sought for the addition of £58.44M to the General Fund programme to be funded as set out in annex 2.1. Approval to be spend will subject to the appropriate approval once a full business case has been developed.
9.	Approval is sought for the reduction of £90.80M to the General Fund capital programme, as set out in annex 2.1.
10.	Approval to spend is sought for £2.75M in 2022/23, already added to the programme in February 2020 for the Special Educational Needs and Disabilities review budget. This will allow the project to proceed to the next stage of detailed design works. It is hoped that a full update will present in early 2022/23, once the outcome of the ongoing feasibility study is known and the project scope can be finalised.
11.	Approval to spend is sought for £19.96M in 2022/23, £10.06M in 2023/24 and £0.95M in 2024/25 to deliver the rolling programme of Highways works, Integrated Transport projects and Future Transport Zone, as detailed in paragraphs 35-37 and summarised in the table below. These budgets were added in February 2020 and subject to a delivery plan.

Table 2a – Highways & Transport Approval to Spend

Project	2022/2023 £M	2023/2024 £M	2024/2025 £M
Highways	15.54	0.00	0.00
Integrated Transport	1.30	1.94	0.95
Future Transport Zone	3.12	8.11	0.00
Total	**19.96**	**10.06**	**0.95**

12.	As part of the appraisal process, all projects are assessed to ensure that they meet the objectives of the Council. Table 3 summarises the items of major spend by programme.

Table 3 – Capital Spend by Programme

Programme	Major Project	2021/ 2022 £M	2022/ 2023 £M	2023/ 2024 £M	2024/ 2025 £M	2025/ 2026 £M	2026/ 2027 £M
Communities Culture & Heritage	Community Safety	1.52	3.43	0.00	0.00	0.00	0.00
	Arts & Heritage	0.89	8.56	0.00	0.00	0.00	0.00
	Estate Improvements - GF	0.23	1.12	0.00	0.00	0.00	0.00
	1000 Parking Spaces (GF)	0.00	2.12	0.00	0.00	0.00	0.00
	Outdoor Leisure	0.43	12.70	4.10	0.05	0.00	0.00
	Other	0.54	1.27	0.00	0.00	0.00	0.00
Customer Service &	Digital & IT	5.96	3.95	1.31	1.02	0.00	0.00

	Transformation	Play Area Improvements	0.80	0.36	0.35	0.00	0.00	0.00
		Parks Development Works	1.32	1.45	0.00	0.00	0.00	0.00
		Fleet Investment	3.83	3.26	2.00	2.00	0.00	0.00
		Hoglands Park & Pavilion	0.00	0.25	0.75	0.00	0.00	0.00
		Other	0.96	1.76	0.00	0.00	0.00	0.00
	Education & Children's Social Care	Early Years Expansion	0.37	0.25	0.00	0.00	0.00	0.00
		Primary Review & Expansion	0.26	0.10	0.00	0.00	0.00	0.00
		School Capital Maintenance	2.37	5.30	1.36	0.00	0.00	0.00
		Secondary Review & Expansion	25.10	9.85	0.60	0.04	0.00	0.00
		SEND Review & Expansion	0.88	7.84	24.02	14.18	0.00	0.00
		Children's Services - Residential/Assessment Unit	1.65	0.67	0.00	0.00	0.00	0.00
		Other	0.44	1.50	0.03	0.00	0.00	0.00
	Environment	River Itchen Flood Alleviation Scheme (RIFAS)	0.00	0.50	4.00	4.20	0.50	1.00
		Salix Energy Efficiency Measures	1.69	0.00	0.00	0.00	0.00	0.00
		Clean Air & Green City	0.08	0.86	0.08	0.00	0.00	0.00
		Other	0.55	0.00	0.00	0.00	0.00	0.00
	Finance & Capital Assets	The Way We Work	0.63	3.11	1.00	1.00	0.00	0.00
	Growth	Bridges Programme	1.63	1.28	3.80	0.00	0.00	0.00
		Highways Programme	11.44	17.53	17.31	8.30	0.00	0.00
		Integrated Transport	7.73	9.29	6.63	7.69	22.19	31.70
		Corporate Assets Decarbonisation Scheme (CADS)	1.78	2.35	2.00	2.00	1.91	0.00
		Transforming Cities	13.37	37.38	9.48	0.00	0.00	0.00
		Future Transport Zone	2.50	7.18	6.60	1.74	0.00	0.00
		Investment Property	0.00	2.25	0.59	0.00	0.00	0.00
		Materials Recycling Facility	0.00	0.58	2.34	0.00	0.00	0.00
		Other	0.29	0.00	0.00	0.00	0.00	0.00
	Health & Adult Social Care	Health & Adult Social Care	0.07	0.21	0.10	0.10	0.00	0.00
		Fire Safety Measures	0.00	0.61	0.00	0.00	0.00	0.00
		TOTAL	**89.30**	**148.85**	**88.44**	**42.31**	**24.60**	**32.70**

NB: Table includes rounded numbers

	MAJOR PROGRAMME CHANGES
	Communities, Culture & Heritage - £0.30M Increase
13.	Art Gallery Roof (£0.90M addition) Following detailed feasibility on the works required to the Art Gallery roof £0.90M is required to be added to the existing capital project. This will allow the project to incorporate measures that will deliver improvements to the Art Gallery whilst repairing a significant element of the Art Gallery's plant and equipment. The opportunity to complete the work in a co-ordinated programme will result in significant benefits. Economies of concurrent working on difficult to access areas and a reduction in service interruptions to the public can be achieved and be delivered by 2025 as part of city preparedness for UK City of Culture. This is to be funded from Council Resources.
14.	CCTV Enhancements (£0.16M addition) Proposals are being developed to expand and enhance the CCTV network across the City to contribute to the Corporate Plan priority to help tackle anti-social behaviour, violence, and begging. The possibility of providing CCTV provision in the Daisy Dip area, following recent acts of vandalism, are being explored by officers as part of this funding. This is to be funded by Council Resources.
	Customer Service & Transformation - £4.40M Increase
15.	CareDirector Phase 2 (£2.49M addition) Following on from the successful implementation of Phase 1, it is planned to move straight into Phase 2 in March 2022. Further enhancements to improve usability and navigation are required to ensure the system is fit for purpose and achieve best value for the funds that have been spent to date on this scheme. By not delaying this phase the Council can maintain the skills and knowledge gained a part of Phase 1. This is to be funded from Council Resources.
16.	Play Area Improvements (£0.70M addition) This addition will allow for the rolling programme of investment into play areas to continue, ensuring young people have a safe environment to play. This will be funded by CIL contributions.
17.	East Park Pavilion (£0.14M addition) This project will allow the reconfiguration of the café within East Park to incorporate the existing mis-used toilets and changing facilities. It will ensure good quality provision for users of the local parks. This will be funded by S106 contributions.
18.	Hoglands Park & Pavilion (£1.00M addition) A project to develop the pavilion in Hoglands Park. Plans will be scoped and developed in 2022/23 with a view to works being completed in 2023/24. Approval to spend will be subject to a full business case. This will be funded by Council Resources.

	Education & Children's Social Care - £3.08M decrease
19.	Townhill Junior School Roof (£1.50M addition) Work has been ongoing to maintain the damaged roof, but it is now at a point of disrepair and requires replacement. This is essential to provide a safe learning environment for the pupils and staff of the school. This will be funded by Government Grant.
20.	Young Persons Hub (£0.31M addition) The project will focus on transforming an area which will encourage young people to access support and advice from social care staff. The project will create an innovative space where young people feel comfortable in attending meetings, seeing their social worker, being involved in group work, provide a new learning environment and facility for social events. This will be funded by Council Resources.
21.	Chamberlayne Refurbishment (£4.90M reduction) Match funding with the DFE has been confirmed for the project and a final list of works agreed. The project will be fully delivered and a saving of £4.90M can be realised. This reduction was to be funded by Council Resources.
	Finance & Capital Assets - £0.85M decrease
22.	The Way We Work (£0.85M reduction) As part of the business case developed for the programme, future capital proposals were estimated to cost £0.85M less than the current budget. The budget has therefore been reduced whilst is the programme is paused and on resumption it will need to operate within the proposed capital budget. This reduction was to be funded by Council Resources.
	Growth - £3.39M Decrease
23.	District Centre Improvements (£3.00M addition) A programme of works to improve the public realm and infrastructure within the City’s district centres. Approval to spend will be sought once the plans have been finalised and business case prepared. This will be funded from CIL contributions.
24.	Winchester Road Property Adaptions (£1.84M addition) Plans to convert one retail unit into two smaller units. This will benefit the council by reducing exposure risk to one tenant’s income, creating an additional unit for future growth and economic development within the City, whilst also ensuring security of income. This will be funded by Council Resources.
25.	Highways Programme (£5.00M addition) Additional funding for Highways, to deliver a programme of works in 2023/24, to include £0.50M on road safety projects. This will be funded by Council Resources and CIL contributions.
26.	Bedford Place Public Realm (£1.20M addition)

	A programme of public realm improvements. A Co-Design Working Group and an Environmental Visual Audit from Hampshire Police have made recommendations for the Bedford Place area to improve issues relating to security, residential amenity, daytime economy and night-time economy, which will be incorporated into the project. This will be funded by CIL contributions and Council Resources.
27.	<u>Belgrave Industrial Estate Roof (£1.00M addition)</u> A series of ad-hoc repairs have been made over several years, but due to the age of the buildings and the techniques used, this approach has proved to be insufficient in providing a suitable solution to the water ingress being experienced. As a result, urgent replacement/major remedial works are now necessary in order that the units can be made fit for purpose and to ensure that SCC meets its obligations as a landlord and tenant. This will be funded by Council Resources.
28.	<u>Materials Recycling Facility (£2.92M addition)</u> The existing MRFs at Alton and Portsmouth are unable to process PTTs, plastic film, cartons or glass, requiring a new MRF to be constructed to enable local authorities in Hampshire to meet their statutory obligations to collect an expanded range of materials for recycling. The terms of the Tripartite Agreement require SCC to pay an 11.48% proportion of the cost of shared infrastructure, which equates to £2.92M. This will be funded by Council Resources.
29.	<u>Itchen Bridge (£3.80M addition)</u> The Itchen Toll Bridge is the City Council's largest and most valuable single highway asset. Cyclical and routine inspections have revealed failures of and severe deterioration to the drainage infrastructure across the bridge. The identified solution is to deliver a complete replacement to the surface water drainage system, alongside reconstruction of the all the footways. The works will also include improvements to public safety. This will be funded by Council Resources and Government Grant.
30.	<u>Bitterne Community Hub (£30.17M reduction)</u> Cabinet has reviewed its priority projects for Southampton and determined that the development of a community hub within Bitterne Village is not required. Alternative proposals to improve local facilities will be implemented as part of the £3.00M District Centre Improvement project added as part of this report. This reduction was to be funded by Council Resources and capital receipts.
31.	<u>Corporate Assets Decarbonisation Scheme (CADS) (£9.85M reduction)</u> Salix 50/50 match funding is no longer available and has been replaced with a grant focused on the decarbonisation of heat – Public Sector Decarbonisation Scheme (PSDS), which is applied for on a competitive basis. Therefore, the project has been reduced by the external contributions. Should grant funding be available in the future this will be added separately.
32.	<u>Royal Pier (£0.41M reduction)</u> Following the end of the original redevelopment deal with partners in 2019, no new deal has come forward. The plan is for this to now be incorporated into a

	wider waterfront project, as detailed in paragraph 39. This reduction was to be funded by external contributions and Council Resources.
33.	West Quay Phase 3 (£0.42M reduction) This site has been earmarked as a potential redevelopment opportunity but with no clear project being taken forward at this stage the budget is being reported as surplus. Future budget allocations will be considered as part of the waterfront plans, detailed in paragraph 39. This reduction was to be funded by external contributions and Council Resources.
34.	Northam Rail Bridge & Transforming Cities Fund (TCF) (£12.11M addition) When the budget for TCF was originally added to the programme it was all added to one scheme while plans were still being finalised; a virement is now required from TCF to the Northam Rail Bridge project to correctly align the budgets. A £12.11M addition is also being made to the Northam Rail Bridge project, as an increased bid has now been submitted to DfT. Approval to spend will be sought once the outcome of the bid is known. The addition is to be funded by Government Grants and external contributions.
35.	Integrated Transport Programme (£4.10M addition) This addition is the next 3 years Local Transport Plan (LTP) grant that has been awarded to the Council to fund the ongoing programme to include: • Road Safety – engineering measures and safety promotion activities, annual review of reported crash data for city, and contribution to Road Safety Partnership; • Cycling – engineering measures to improve cycling routes and safety; • Accessibility – improved pedestrian crossings and Legible Cities wayfinding programme; • Intelligent Transport Systems (ITS) – traffic signals, ongoing funding of Covid-19 mitigation measures and new traffic monitoring; • Public Transport – improve bus stops, new bus stop information including Real Time Information and bus stop flags; and • Travel to School – expansion of the School Streets programme to improve pedestrian safety at school gates. Approval to spend is requested for the ongoing Integrated Transport programme, £1.30M in 2022/23, £1.94M in 2023/24 and £0.95M in 2024/25, funded by Government Grant and S106 contributions. A breakdown of individual projects is included in annex 2.2.
36.	Highways Programme (£0.08M addition) The Council is continuing to deliver highway and public realm infrastructure improvements in the City to help offset the continuing deterioration of the City's roads and footways. The programme of works for 2022/23 has now been drafted and the budgets aligned to support this, as detailed in annex 2.1. Approval to spend £15.54M is requested for the 2022/23 Highways programme. A breakdown of individual projects is included in annex 2.2.
37.	Future Transport Zone (FTZ) (nil net movement) This project has been rephased, £10.20M from 2022/23 to future years to reflect the planned work of this project, which was not known when the grant

	was added to the programme. This will allow for greater project and financial management. A breakdown of individual projects is included in annex 2.2. Approval to spend is requested for the ongoing Future Transport Zone programme, £3.12M in 2022/23 and £8.11M in 2023/24.
	Health & Adult Social Care - £0.61M Increase
38.	Holcroft House - Fire Safety Measures (£0.61M addition) A recent Fire Risk Assessment has identified the need to undertake a number of fire safety measures at Holcroft House, a residential home for adults with Dementia. The project will undertake the comprehensive upgrading works required to provide a “stay put” policy, including the installation of a sprinkler system. This will be funded from Council Resources.
	FUTURE PLANS
39.	Within the City there are a number of exciting opportunities that are being considered, to increase and improve both residents and visitors experience whilst in Southampton. These include: Bargate Square Public Realm The Bargate Monument forms a centre point of a Queen Elizabeth 2 (QE2) Mile. A unique timeline that runs through the heart of the city and reveals the hidden histories of the Old Town, connecting this and the waterfront to the modern precinct retail core and the Cultural Quarter. Commercial development has now restarted in the area and there is scope to deliver public realm improvements to the Bargate Square with the Bargate Monument as the centrepiece. The aim is to re-establish the Bargate’s importance as a key public space along the QE2 Mile. Mayflower Park Waterfront Potential project to establish the current Mayflower Park as a waterfront visitor destination to enhance visitor experience and compliment the proposed Spitfire Monument that is to be delivered by the National Spitfire Project. As these projects are still in the early stages of planning and assessing funding options, including any potential from ‘levelling up’ Government funding, there is nothing being added to the capital programme at present. Freeport Southampton City Council is also part of the freeport bid alongside other local councils and major businesses. Solent Freeport is currently in the process of submitting a final case to Government to secure the advantages a Freeport could bring to Southampton and the wider area. This should facilitate major private and publicly funded investment over the next 25 years. The forecast benefits include: • Over £1.6bn of private investment. This includes marine technology, advanced manufacturing and logistics and high innovation firms attracted due to the tax benefits plus a forecast 26,000 jobs created in

	the Solent area Investment facilitated by business rate growth over 25 years which will support: • Identified Freeport infrastructure and connectivity needs, in line with agreed local and regional ambitions and strategies; • The UK's Net Zero ambitions as well as regional environmental ambitions, including the Freeport's own net zero strategy. Further information on the Freeport bid will be submitted to Council shortly.
	CAPITAL RESOURCES
40.	The resources which can be used to fund the capital programme are as follows: • Council Resources – Borrowing; • Council Resources - Capital Receipts from the sale of HRA assets; • Council Resources - Capital Receipts from the sale of General Fund assets; • Contributions from third parties; • Central Government Grants and grants from other bodies ; and • Direct Revenue Financing.
41.	Capital Receipts from the sale of Right to Buy (RTB) properties are passed to the General Fund capital programme to support the Private Sector Housing schemes.
42.	It should be noted that the revised General Fund Capital Programme is based on prudent assumptions of future Government Grants to be received. The majority of these grants relate to funding for schools and transport and are non-ring fenced. However, these grants continue to be passported to these areas. These assumptions will be monitored closely and any updates reported as part on the monthly monitoring process; should any grants not materialise then the projects affected will need to be reconsidered.
43.	The forecast for borrowing costs in 2022/23 is £18.04M, of which £5.34M relates to the HRA. This is expected to rise to £26.93M (£7.70M HRA) by 2025/26 to accommodate the capital programme, utilisation of reserves and refinancing of borrowing. More information can be found at section 2.4.10 of the Capital Strategy. The proportion of the revenue budget allocated to capital financing will increase from 10.34% for 2022/23 to 11.68% for 2025/26.

44. Table 4 shows the current level of available resources.

Table 4 – Available Capital Funding

Resource	Balance B/Fwd. £M	Received to Date 2021/22 £M	Allocated to Current Programme £M	Available Funding £M	Anticipated Receipts 2021/22 £M
Capital Receipts	(0.01)	(1.83)	4.00	0.00	(0.56)
CIL	(14.93)	(1.47)	19.92	(0.00)	(0.25)
S106	(9.94)	(0.22)	9.18	(0.98)	(0.09)
	(24.88)	**(3.52)**	33.10	(0.98)	(0.90)

45. Table 4 shows that the largest resource is Community Infrastructure Levy (CIL) funding. There is currently more allocated to the programme than receipts to date but this is based on prudent assumptions about future developments within the City and therefore CIL receipts.

46. Funding for the capital programme has previously been heavily reliant on capital receipts from the sale of Council properties. These receipts have always had a degree of uncertainty regarding their amount and timing, but the economic climate and the response to COVID-19 has increased the Council's risk in this area. To reduce this risk properties that are not yet on the market have been removed from the assumptions of what is available to fund the programme and a small contingency is being held to alleviate pressures from any reductions to sales value.

47. Table 5 below shows the previous and current capital receipt assumptions, together with the actual receipts received in year for the General Fund. There has been no movement since the last reported position.

48. Table 5 – General Fund Capital Receipts Estimates

Forecast	B/Fwd. £M	2021/22 £M	2022/23 £M	Total £M
Latest	0.01	2.39	1.60	4.00
Previous	0.01	2.39	1.60	4.00
Variance	**0.00**	**0.00**	**0.00**	**0.00**

*No further receipts from 2023/24 to 2027/27

OVERALL CAPITAL PROGRAMME

49. Tables 6 and 7 show capital expenditure by portfolio and the use of resources to finance the General Fund Capital Programme up to and including 2026/27. Annex 2.2 provides details of each portfolios latest programme and the financing of that programme.

Table 6 – Capital Expenditure by Programme

	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	Total £M
Communities, Culture & Heritage	3.61	29.19	4.10	0.05	0.00	0.00	36.95
Customer Service & Transformation	12.88	11.02	4.41	3.02	0.00	0.00	31.32
Education & Children's Social Care	31.07	25.51	26.01	14.22	0.00	0.00	96.81

Environment	2.31	1.36	4.08	4.20	0.50	1.00	13.45
Finance & Capital Assets	0.63	3.11	1.00	1.00	0.00	0.00	5.73
Growth	38.73	77.84	48.74	19.72	24.10	31.70	240.84
Health & Adult Social Care	0.07	0.82	0.10	0.10	0.00	0.00	1.09
Total	**89.30**	**148.85**	**88.44**	**42.31**	**24.60**	**32.70**	**426.20**

Table 7 – Use of Resources

	2021/22 £M	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**	**2025/26 £M**	**2026/27 £M**	**Total £M**
*CR - GF Borrowing	(24.67)	(62.98)	(53.06)	(27.71)	(4.50)	(3.69)	(176.61)
Capital Receipts	(2.41)	(1.59)	0.00	0.00	0.00	0.00	(4.00)
Contributions	(4.80)	(12.17)	(11.00)	(4.70)	(2.50)	(1.75)	(36.91)
Capital Grants	(56.35)	(72.03)	(24.38)	(9.90)	(17.61)	(27.26)	(207.53)
Revenue Financing	(1.08)	(0.07)	0.00	0.00	0.00	0.00	(1.15)
Total Financing	**(89.30)**	**(148.85)**	**(88.44)**	**(42.31)**	**(24.60)**	**(32.70)**	**(426.20)**

*CR – Council Resources

NB: Table includes rounded figures

50. Table 7 demonstrates that the most significant amount of funding for the General fund programme is provided by Grants, as noted above predominately relating to schools and transport/highways. Council Resources is the next main source of funding, which at present, will be mainly through borrowing. Borrowing costs are in the main met within a central provision, which is detailed within the revenue budget.

51. Every effort will be made to explore external funding opportunities to reduce the need for borrowing. On average every £1M borrowed will incur revenue financing charges (interest and MRP) of £0.06M. Should grants or contributions be made available to the Council in the future, these will be reported as part of the routine financial monitoring process.

CAPITAL STRATEGY

52. The Council needs to have a fit for purpose Capital Strategy to ensure that all the Council's priorities are accounted for in the allocation of resources to the capital programme. A review has therefore been undertaken to update the Capital Strategy for 2022/23 and this is attached in annex 2.3.

53. The Prudential Code for Capital Finance in Local Authorities requires authorities to produce a capital strategy. The guidance outlines a number of key factors which they recommend be included in a capital strategy:

- The strategy should be formally approved by Council;
- Clearly sets out the forthcoming capital expenditure of the Council;
- There should be a clear link to the treasury management strategy, therefore including prudential indicators;
- Focus on commercial activity and associated risks;
- Long term impact and liabilities of decisions being undertaken;
- Knowledge and skills of responsible officers.

54. Prudential Indicators are an indication that capital investment planning and the Authority's borrowing decisions are prudent and sustainable.

	HRA prudential indicators by statute are ring-fenced and are calculated separately. The prudential indicators have been set for the forthcoming period and comprise of three main components relating to: - • **Capital Expenditure** – Estimates of Capital Expenditure and Capital Financing, Current and Estimated Movement in the Capital Financing Requirement i.e. the Authority's underlying need to borrow; • **External Debt** – Current and Estimated Movement in Gross Debt. Authorised limits for Borrowing set by the Authority and the Operational Boundary for Total External Debt (excluding investments) and separate identification for borrowing against debt and other long-term liabilities. Other indicators outline the estimated movement in borrowing requirement and loans over the forthcoming five-year period; and • **Affordability** – the Ratio of Financing Costs to Net Revenue Stream – this indicates the revenue implications of capital expenditure required to meet borrowing costs.
55.	In setting the indicators, the Authority will also take into account Minimum Revenue Provision (MRP) to set aside amounts for repayment of debt over the loan period or an equitable amount in line with Capital Regulations. The Council's MRP policy is detailed in Annex 2.3(a), and requires approval as part of this report.
56.	In preparing the capital strategy, the Authority will also take into account: • The Council's Treasury Strategy, to be approved by Governance on 14th February 2022; • The Council's Investment Strategy which is detailed in Annex 2.3(b) and requires approval as part of this report.

Annexes	
2.1.	Variations to the General Fund Capital Programme Since Q3
2.2.	General Fund Capital Programme – Scheme Details
2.3.	Capital Strategy 2022/23
	2.3(a) MRP Strategy
	2.3(b) Investment Strategy

Variations to the General Fund Capital Programme Since Q3

Portfolio	Scheme	£M	*Spend Subject to Business Case	Funding Source	Report (App. 2) Paragraph Ref.
Additions to the GF Programme					
Communities, Culture & Heritage	Art Gallery Roof	0.09		Council Resources	13
	British Library IP Centre	0.06		Council Resources	
	CCTV Enhancements	0.16		Council Resources	14
		0.30			
Customer Service & Transformation	CareDirector - Phase 2	2.49		Council Resources	15
	Play Areas (Rolling Programme)	0.70		CIL Contributions	16
	East Park Pavilion	0.14		S106 Contributions	17
	Hoglands Park & Pavilion	1.00	*	Council Resources	18
	Weston Shore Coastal Erosion	0.07		DRF	
		4.40			
Education & Children's Social Care	Additional SEND classrooms	0.10		Gov Grant	
	Townhill Junior School Roof	1.50		Gov Grant	19
	Young Persons Hub	0.31		Council Resources	20
		1.91			
Growth	District Centre Improvements	3.00	*	CIL Contributions	23
	Winchester Road Property Adaptions	1.84		Council Resources	24
	Highways Programme	5.00		CIL Contributions / Council Resources	25
	Bedford Place Public Realm	1.20		CIL Contributions / Council Resources	26
	Belgrave Industrial Estate Roof	1.00		Council Resources	27
	Materials Recycling Facility	2.92		Council Resources	28
	Itchen Bridge	3.80		Council Resources	29
	Northam Rail Bridge	54.44	*	Gov Grant / Contributions	34
	Cycling	0.83		Gov Grant / S106 Contributions	35
	Public Transport	0.56		Gov Grant / S106 Contributions	35
	Improved Safety	0.60		Gov Grant / S106 Contributions	35
	Travel to School	0.42		Gov Grant / S106 Contributions	35
	Accessibility	0.49		Gov Grant / S106 Contributions	35
	ITS	1.29		Gov Grant / S106 Contributions	35
	Pothole Action Fund	0.85		Gov Grant	36
	Footways - Various Treatments	1.00		Gov Grant	36
	Highways Drainage Investigations	0.25		Gov Grant	36
	Road Restraint Systems	0.30		Gov Grant	36
	Other Bridge Works	1.73		Gov Grant	36
	Essential Highways Minor Works	0.07		Gov Grant	36
		81.57			
Health & Adult Social Care	Holcroft House - Fire Safety Measures	0.61			38
	TOTAL GF ADDITIONS	**88.79**			
Reductions from the GF Programme					
Education & Children's Social Care	Chamberlayne Refurbishment	(4.90)		Council Resources	21
	Cantell Secondary Expansion	(0.09)		Council Resources	
		(4.99)			
Finance & Capital Assets	The Way We Work	(0.85)		Council Resources	22
Growth	Bitterne Community Hub	(30.17)		Council Resources	30
	Corporate Assets Decarbonisation Scheme (CADS)	(9.85)		External Contributions	31
	Royal Pier	(0.41)		Council Resources / External Contributions	32
	West Quay Phase 3	(0.42)		Council Resources / External Contributions	33
	Itchen Bridge Card Reader	(0.03)		DRF	
	Transforming Cities Fund (TCF)	(39.81)		Gov Grant / Contributions	34
	Corridor Improvements	(0.09)		Gov Grant	34
	S106 - Integrated Transport & Highways	(0.08)		S106 Contributions	35
	Highways Improvements (Developer)	(0.03)		S106 Contributions	36
	Additional Road Programme	(4.09)		Gov Grant	36
		(84.96)			
	TOTAL GF REDUCTIONS	**(90.80)**			
Total Variations to the GF Programme		**(2.02)**			

NB: Figures above include rounded numbers

Approved By Full Council		0.00
Approved By Cabinet		0.00
Approved under Delegated Powers		0.00
To be Approved	Addition & Spend	30.35
	Addition Only	58.44
	Reduction	(90.80)
		(2.02)

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Communities, Culture & Heritage

Scheme No.	Project Description	Budget 2021/22 £M	Budget 2022/23 £M	Budget 2023/24 £M	Budget 2024/25 £M	Budget 2025/26 £M	Budget 2026/27 £M	Total £M
CG0018	CCTV Cameras	0.025	0.000	0.000	0.000	0.000	0.000	0.025
CG0132	Arts Gallery Improvements	0.010	0.000	0.000	0.000	0.000	0.000	0.010
CG0139	Outdoor Sports Centre Improvements	0.430	12.700	4.100	0.050	0.000	0.000	17.280
CG0140	Art in Public Places – Millbrook and Weston	0.000	0.013	0.000	0.000	0.000	0.000	0.013
CG0202	S106 - Art in Public Spaces	0.000	0.036	0.000	0.000	0.000	0.000	0.036
CG0208	Heritage Assets- Strategy	0.363	0.000	0.000	0.000	0.000	0.000	0.363
CT0027	Disabled Facilities Grants - Approved Adaptations	1.200	3.266	0.000	0.000	0.000	0.000	4.466
CT0028	Disabled Facilities Grants - Support Costs	0.298	0.000	0.000	0.000	0.000	0.000	0.298
CT0030	Estate Parking Improvements	0.230	0.000	0.000	0.000	0.000	0.000	0.230
CT0068	Warm Homes	0.361	0.000	0.000	0.000	0.000	0.000	0.361
CT0072	S106 - Affordable Homes	0.000	1.122	0.000	0.000	0.000	0.000	1.122
CG0216	Art Gallery Roof	0.500	0.900	0.000	0.000	0.000	0.000	1.400
CG0233	Hoarders Project	0.100	0.000	0.000	0.000	0.000	0.000	0.100
CG0234	Extend Library Opening Hours	0.040	0.209	0.000	0.000	0.000	0.000	0.249
CG0235	SeaCity Museum	0.015	0.000	0.000	0.000	0.000	0.000	0.015
CG0236	1000 Parking Spaces (General Fund Element)	0.000	2.117	0.000	0.000	0.000	0.000	2.117
CG0237	Sky Museum	0.040	0.000	0.000	0.000	0.000	0.000	0.040
CG0238	Vaults Restoration	0.000	1.023	0.000	0.000	0.000	0.000	1.023
CG0242	Restoring and Promoting Heritage Assets	0.000	5.687	0.000	0.000	0.000	0.000	5.687
CT0095	Golf Course	0.000	1.000	0.000	0.000	0.000	0.000	1.000
LCAP01	Art Gallery Roof	0.000	0.900	0.000	0.000	0.000	0.000	0.900
LCAP02	British Library IP Centre	0.000	0.056	0.000	0.000	0.000	0.000	0.056
LCAP03	CCTV	0.000	0.160	0.000	0.000	0.000	0.000	0.100
		3.612	**29.189**	**4.100**	**0.050**	**0.000**	**0.000**	**36.891**
Sources of Finance								
	Council Resources	0.862	18.889	3.100	0.050	0.000	0.000	22.901
	Capital Receipts	0.405	0.263	0.000	0.000	0.000	0.000	0.668
	Contributions	0.686	6.771	1.000	0.000	0.000	0.000	8.457
	Grants	1.659	3.266	0.000	0.000	0.000	0.000	4.925
	Total Programme	**3.612**	**29.189**	**4.100**	**0.050**	**0.000**	**0.000**	**36.951**

Scheme No.	Project Description	Budget 2021/22 £M	Budget 2022/23 £M	Budget 2023/24 £M	Budget 2024/25 £M	Budget 2025/26 £M	Budget 2026/27 £M	Total £M
CG0199	S106 - Open Spaces	0.714	0.000	0.000	0.000	0.000	0.000	0.714
CG0200	S106 - Play Areas	0.189	0.000	0.000	0.000	0.000	0.000	0.189
CT0001	Purchase of vehicles	3.834	3.257	2.000	2.000	0.000	0.000	11.091
CT0009	Cedar Lodge Play Area	0.003	0.000	0.000	0.000	0.000	0.000	0.003
CT0018	Daisy Dip Play Area	0.035	0.000	0.000	0.000	0.000	0.000	0.035
CT0020	Coxford Play Area	0.001	0.006	0.000	0.000	0.000	0.000	0.007
CT0035	Hum Hole	0.002	0.000	0.000	0.000	0.000	0.000	0.002
CT0036	Lordsdale Greenway	0.005	0.000	0.000	0.000	0.000	0.000	0.005
CT0037	Riverside Park	0.002	0.000	0.000	0.000	0.000	0.000	0.002
CT0039	Westwood Greenway	0.011	0.017	0.000	0.000	0.000	0.000	0.028
CT0040	Mayfield Park Improvements	0.023	0.000	0.000	0.000	0.000	0.000	0.023
CT0041	City Pride - Improvements to Queens Park	0.025	0.000	0.000	0.000	0.000	0.000	0.025
CT0043	Portswood Entrance Improvements	0.008	0.000	0.000	0.000	0.000	0.000	0.008
CT0044	Blechynden Terrace Park	0.000	0.012	0.000	0.000	0.000	0.000	0.012
CT0049	Realignment of Park Walk Entrance to East Park	0.007	0.000	0.000	0.000	0.000	0.000	0.007
CT0055	Solar Powered Compactor Bins	0.080	0.720	0.000	0.000	0.000	0.000	0.800
CT0061	Weston Shore Coastal Erosion	0.000	1.042	0.000	0.000	0.000	0.000	0.972
CT0064	Welfare Improvements at Mayfield Depot	0.019	0.000	0.000	0.000	0.000	0.000	0.019
CT0069	Eddies Play Trail	0.005	0.000	0.000	0.000	0.000	0.000	0.005
CT0071	Tranman - Fleet System Upgrade	0.019	0.000	0.000	0.000	0.000	0.000	0.019
CT0075	City Services - Depots	0.817	0.000	0.000	0.000	0.000	0.000	0.817
CT0076	Rozel Court Play Area	0.036	0.000	0.000	0.000	0.000	0.000	0.036
CT0077	Millbrook Rec Play Area	0.053	0.000	0.000	0.000	0.000	0.000	0.053
CT0078	Bracklesham Close Play Area	0.046	0.000	0.000	0.000	0.000	0.000	0.046
CT0080	Ivy Dene Play Area	0.038	0.000	0.000	0.000	0.000	0.000	0.038
CT0082	Peace Fountain Refurbishment and Enhancement	0.024	0.000	0.000	0.000	0.000	0.000	0.024
CT0084	High Priority Play Parks	0.396	0.000	0.000	0.000	0.000	0.000	0.396
CT0083	Open Spaces	0.086	0.424	0.000	0.000	0.000	0.000	0.510
CA0010	Client Case Management System	2.106	0.000	0.000	0.000	0.000	0.000	2.106
CG0211	IT Equipment and Software Refresh	3.471	1.515	1.306	1.015	0.000	0.000	7.307
CI0001	Customer Relationship Management	0.016	0.000	0.000	0.000	0.000	0.000	0.016
CI0002	CRM Phase 2	0.068	0.000	0.000	0.000	0.000	0.000	0.068
CI0040	Contact Centre Telephony	0.124	0.119	0.000	0.000	0.000	0.000	0.243
CT0095	Golf Course	0.085	0.000	0.000	0.000	0.000	0.000	0.085
CT0031	Southampton Common	0.000	0.050	0.000	0.000	0.000	0.000	0.050
CT0085	Traveller Defences	0.010	0.090	0.000	0.000	0.000	0.000	0.100
CT0092	Mayflower Park Revetments	0.121	0.379	0.000	0.000	0.000	0.000	0.500
CT0093	Weston Shore Footpath	0.000	0.090	0.000	0.000	0.000	0.000	0.090
CT0094	Green Flag Improvements	0.223	0.250	0.000	0.000	0.000	0.000	0.473
TCAP01	Play Areas	0.000	0.350	0.350	0.000	0.000	0.000	0.700
TCAP02	East Park Pavillion	0.000	0.140	0.000	0.000	0.000	0.000	0.140
TCAP03	Hoglands Park & Pavillion	0.000	0.250	0.750	0.000	0.000	0.000	1.000
TCAP04	CareDirector	0.174	2.311	0.000	0.000	0.000	0.000	2.485
		12.876	**11.022**	**4.406**	**3.015**	**0.000**	**0.000**	**31.249**

Sources of Finance

Council Resources	7.916	8.236	4.056	3.015	0.000	0.000	23.223
Capital Receipts	2.000	1.330	0.000	0.000	0.000	0.000	3.330
Contributions	1.897	1.386	0.350	0.000	0.000	0.000	3.633
Direct Revenue Finance	1.063	0.070	0.000	0.000	0.000	0.000	1.133
Total Programme	**12.876**	**11.022**	**4.406**	**3.015**	**0.000**	**0.000**	**31.319**

Education & Children's Social Care

Scheme No.	Project Description	Budget 2021/22 £M	Budget 2022/23 £M	Budget 2023/24 £M	Budget 2024/25 £M	Budget 2025/26 £M	Budget 2026/27 £M	Total £M
CC0004	Primary Review P2 - Fairisle Junior	0.050	0.000	0.000	0.000	0.000	0.000	0.050
CC0008	Springwell School - Main Expansion 15/16	0.197	0.000	0.000	0.000	0.000	0.000	0.197
CC0010	Springhill Primary Academy School - one modular building	0.000	0.039	0.000	0.000	0.000	0.000	0.039
CC0014	St Denys	0.004	0.000	0.000	0.000	0.000	0.000	0.004
CC0020	Schools Condition Works	2.048	3.796	1.361	0.000	0.000	0.000	7.205
CC0021	Early Years Expansion Programme	0.373	0.248	0.000	0.000	0.000	0.000	0.621
CC0023	St Mark's School	21.005	6.418	0.507	0.000	0.000	0.000	27.930
CC0030	Bitterne Park Autism Resource Base	0.014	0.000	0.000	0.000	0.000	0.000	0.014
CC0034	Sholing Technical College Renovation	0.760	0.000	0.000	0.000	0.000	0.000	0.760
CC0035	Regent Park Expansion	0.207	0.000	0.000	0.000	0.000	0.000	0.207
CC0037	St George's Expansion	0.135	2.085	0.050	0.000	0.000	0.000	2.270
CC0038	Cantell Secondary Expansion	0.352	0.000	0.000	0.000	0.000	0.000	0.352
CC0039	Chamberlayne Refurbishment	2.628	0.000	0.000	0.000	0.000	0.000	2.628
CC0041	Healthy Pupils Capital Fund	0.022	0.000	0.000	0.000	0.000	0.000	0.022
CC0042	Sure Start Sholing Year R Springwell	0.005	0.062	0.000	0.000	0.000	0.000	0.067
CC0044	Regent Park Sports Facility	0.000	1.349	0.000	0.000	0.000	0.000	1.349
CC0047	Mount Pleasant Junior Health & Safety	0.252	0.006	0.000	0.000	0.000	0.000	0.258
CC0048	Newlands Hearing Centre	0.100	0.980	0.029	0.000	0.000	0.000	1.109
CC0049	SEND Review	0.300	6.750	23.995	14.180	0.000	0.000	45.225
CC0050	Childrens Services- Residential Unit	0.998	0.665	0.000	0.000	0.000	0.000	1.663
CC0051	Childrens Services- Assessment Unit	0.649	0.000	0.000	0.000	0.000	0.000	0.649
CC0052	Maytree School Playground	0.050	0.000	0.000	0.000	0.000	0.000	0.050
CC0053	Surestart	0.067	0.000	0.000	0.000	0.000	0.000	0.067
CC0055	Modular relocation & purchase from Springwell to Vermont	0.283	0.000	0.000	0.000	0.000	0.000	0.283
CC0056	Reconfiguration of Compass School Green Lane	0.484	0.010	0.000	0.000	0.000	0.000	0.494
CC0057	Polygon All Weather Pitch	0.050	0.000	0.000	0.000	0.000	0.000	0.050
CC0058	St Marks ICT Equipment	0.000	0.000	0.041	0.041	0.000	0.000	0.082
CC0059	St Monica's Academisation	0.039	1.192	0.031	0.000	0.000	0.000	1.262
ECAP01	SEND - 2 primary classrooms for Sept 22	0.000	0.100	0.000	0.000	0.000	0.000	0.100
ECAP02	Townhill Junior	0.000	1.500	0.000	0.000	0.000	0.000	1.500
ECAP03	Young People Space at Civic	0.000	0.305	0.000	0.000	0.000	0.000	0.305
		31.072	**25.505**	**26.014**	**14.221**	**0.000**	**0.000**	**96.812**
Sources of Finance								
	Council Resources	4.663	9.685	24.074	14.180	0.000	0.000	52.602
	Grants	26.409	15.820	1.940	0.041	0.000	0.000	44.210
	Total Programme	**31.072**	**25.505**	**26.014**	**14.221**	**0.000**	**0.000**	**96.812**

Environment

Scheme No.	Project Description	Budget 2021/22 £M	Budget 2022/23 £M	Budget 2023/24 £M	Budget 2024/25 £M	Budget 2025/26 £M	Budget 2026/27 £M	Total £M
CT0003	Lighting Upgrades Salix Works	0.006	0.000	0.000	0.000	0.000	0.000	0.006
CT0074	S106 - Air Quality	0.000	0.011	0.000	0.000	0.000	0.000	0.011
CT0081	Crematorium Refurbishment	0.548	0.000	0.000	0.000	0.000	0.000	0.548
CT0090	Green City Action Plan	0.077	0.845	0.078	0.000	0.000	0.000	1.000
CG0220	Public Sector Decarbonisation Scheme	1.680	0.000	0.000	0.000	0.000	0.000	1.680
JCAP1	River Itchen Flood Alleviation Scheme (RIFAS)	0.000	0.500	4.000	4.200	0.500	1.000	10.200
		2.311	**1.356**	**4.078**	**4.200**	**0.500**	**1.000**	**13.445**
Sources of Finance								
	Council Resources	0.625	0.845	0.078	0.000	0.000	0.000	1.548
	Contributions	0.006	0.511	4.000	4.200	0.500	1.000	10.217
	Grants	1.680	0.000	0.000	0.000	0.000	0.000	1.680
	Total Programme	**2.311**	**1.356**	**4.078**	**4.200**	**0.500**	**1.000**	**13.445**

Finance & Capital Assets

Scheme No.	Project Description	Budget 2021/22 £M	Budget 2022/23 £M	Budget 2023/24 £M	Budget 2024/25 £M	Budget 2025/26 £M	Budget 2026/27 £M	Total £M
CG0158	Civic Centre Upgrade	0.516	3.106	1.000	1.000	0.000	0.000	5.622
CI0020	PA System	0.060	0.000	0.000	0.000	0.000	0.000	0.060
CI0030	Digital Customer Content Management	0.050	0.000	0.000	0.000	0.000	0.000	0.050
		0.626	**3.106**	**1.000**	**1.000**	**0.000**	**0.000**	**5.732**
Sources of Finance								
	Council Resources	0.626	3.106	1.000	0.100	0.000	0.000	4.832
	Total Programme	**0.626**	**3.106**	**1.000**	**0.100**	**0.000**	**0.000**	**4.832**

Growth

Scheme No.	Project Description	Budget 2021/22 £M	Budget 2022/23 £M	Budget 2023/24 £M	Budget 2024/25 £M	Budget 2025/26 £M	Budget 2026/27 £M	Total £M
CAP1	Northam Rail Bridge	0.000	3.169	3.170	6.340	22.190	31.700	66.569
CAP3	Lordswood Close - Unadopted Road	0.000	0.250	0.000	0.000	0.000	0.000	0.250
CG0004	QE2 Mile - Bargate Square	0.000	0.000	1.260	0.000	0.000	0.000	1.260
CG0006	Cycling	0.565	0.632	0.450	0.150	0.000	0.000	1.797
CG0008	Public Transport	1.532	0.180	0.290	0.090	0.000	0.000	2.092
CG0009	Improved Safety	0.351	0.245	0.200	0.150	0.000	0.000	0.946
CG0010	Travel to School	0.207	0.148	0.134	0.134	0.000	0.000	0.623
CG0013	Accessibility	0.125	0.125	0.250	0.125	0.000	0.000	0.625
CG0016	Local Transport Improvement Fund	0.000	0.480	0.000	0.000	0.000	0.000	0.480
CG0017	ITS	0.300	0.375	0.616	0.300	0.000	0.000	1.591
CG0024	Electric Vehicle Action Plan	0.298	0.000	0.000	0.000	0.000	0.000	0.298
CG0026	Additional Roads Programme	6.465	12.195	7.800	7.800	0.000	0.000	34.260
CG0027	Essential Highways Minor Works	0.060	0.070	0.000	0.000	0.000	0.000	0.130
CG0028	Pothole Action Fund	1.345	0.500	0.000	0.000	0.000	0.000	1.845
CG0029	Cycleways Improvements Programme	0.076	0.000	0.000	0.000	0.000	0.000	0.076
CG0034	NCR: Ave East Lodge Rd – Dorset St	0.015	0.000	0.000	0.000	0.000	0.000	0.015
CG0038	Bus Corridor Minor Works	0.102	0.000	0.000	0.000	0.000	0.000	0.102
CG0042	Other Bridge Works	1.609	1.283	0.000	0.000	0.000	0.000	2.892
CG0050	Footways - Various Treatments	1.500	1.000	0.000	0.000	0.000	0.000	2.500
CG0052	Highways Drainage Investigations	0.250	0.250	0.000	0.000	0.000	0.000	0.500
CG0053	St Lighting	0.000	0.013	0.000	0.000	0.000	0.000	0.013
CG0054	Road Restraint Systems	0.300	0.300	0.000	0.000	0.000	0.000	0.600
CG0060	Highways Improvements (Developer)	0.116	0.134	0.000	0.000	0.000	0.000	0.250
CG0063	Emergency Repairs to MSCPs	0.056	0.000	0.000	0.000	0.000	0.000	0.056
CG0148	Town Depot	0.050	0.168	0.000	0.000	0.000	0.000	0.218
CG0150	Mayflower Park Spitfire Memorial	0.012	0.000	0.000	0.000	0.000	0.000	0.012
CG0152	West Quay Phase 3 Site B	0.057	0.000	0.000	0.000	0.000	0.000	0.057
CG0195	Itchen Bridge Card Readers	0.020	0.000	0.000	0.000	0.000	0.000	0.020
CG0196	M27/M3 Travel Demand Management	0.360	0.000	0.000	0.000	0.000	0.000	0.360
CG0197	S106 - Highways	0.000	0.342	0.000	0.000	0.000	0.000	0.342
CG0198	S106 - Integrated Transport	0.000	0.005	0.000	0.000	0.000	0.000	0.005
CG0209	FTZ Theme 1 - Personal Mobility - Future Transport Zone	2.500	0.000	0.000	0.000	0.000	0.000	2.500
	FTZ Theme 1 - Personal Mobility - MaaS Trials	1.108	1.058	0.945	0.351	0.000	0.000	3.462
	FTZ Theme 1 - Personal Mobility - Solent Go	0.251	0.151	0.021	0.021	0.000	0.000	0.444
	FTZ Theme 1 - Personal Mobility - Mobility Credits	0.000	0.215	0.410	0.025	0.000	0.000	0.650
	FTZ Theme 1 - Personal Mobility - Bike Share	0.118	1.741	0.000	0.000	0.000	0.000	1.859
	FTZ Theme 1 - Personal Mobility - Lift Share	0.015	0.150	0.143	0.000	0.000	0.000	0.308
	FTZ Theme 1 - Personal Mobility - DDRT	0.000	0.500	0.221	0.050	0.000	0.000	0.771
	FTZ Theme 1 - Personal Mobility - Escooter Trials (SCC)	0.239	0.621	0.000	0.000	0.000	0.000	0.860
CG0215	Transforming Cities Fund	13.367	37.382	9.479	0.000	0.000	0.000	60.228
CT0065	Clean Air Zone	0.217	0.000	0.000	0.000	0.000	0.000	0.217
CT0066	Townhill Park Infrastructure - Roads	0.178	0.000	0.000	0.000	0.000	0.000	0.178
CT0067	Townhill Park Infrastructure - Parks	0.536	0.000	0.000	0.000	0.000	0.000	0.536
CG0218	FTZ Programme - Other - Programme & Project M&E	0.378	0.297	0.230	0.104	0.000	0.000	1.009
	FTZ Programme - Other - FTZ Project Support	0.075	0.275	0.265	0.025	0.000	0.000	0.640
	FTZ Programme - Other - FTZ Programme Delivery Team	0.563	0.700	0.700	0.250	0.000	0.000	2.213
	FTZ Programme - Other - FTZ Programme Contingency	0.050	0.356	0.650	0.997	0.000	0.000	2.053

Scheme No.	Project Description	Budget 2021/22 £M	Budget 2022/23 £M	Budget 2023/24 £M	Budget 2024/25 £M	Budget 2025/26 £M	Budget 2026/27 £M	Total £M
CG0217	FTZ Theme 2 - Sustainable Urban Logistics - Micro consolidation	0.368	1.246	0.809	0.076	0.000	0.000	2.499
	FTZ Theme 2 - Sustainable Urban Logistics - Macro consolidation	0.051	0.475	0.321	0.029	0.000	0.000	0.876
	FTZ Theme 2 - Sustainable Urban Logistics - Drones for medical logistics	1.017	3.331	3.400	0.206	0.000	0.000	7.954
CG0231	Pavements	0.000	0.500	0.500	0.500	0.000	0.000	1.500
CG0241	Safer Streets	0.150	0.350	0.000	0.000	0.000	0.000	0.500
CT0091	Corporate Assets Decarbonisation Scheme (CADS)	1.780	2.351	2.000	2.000	1.914	0.000	10.045
CCAP01	Belgrave Industrial Estate Roof	0.000	1.000	0.000	0.000	0.000	0.000	1.000
CCAP02	District Centre Improvements	0.000	0.250	2.750	0.000	0.000	0.000	3.000
CCAP03	Works to Winchester Rd investment property	0.000	1.250	0.587	0.000	0.000	0.000	1.837
CCAP04	Highways	0.000	0.000	5.000	0.000	0.000	0.000	5.000
CCAP05	Bedford Place	0.000	1.200	0.000	0.000	0.000	0.000	1.200
CCAP06	Materials Recycling Facility	0.000	0.580	2.340	0.000	0.000	0.000	2.920
CCAP07	Itchen Bridge	0.000	0.000	3.800	0.000	0.000	0.000	3.800
		38.732	**77.843**	**48.741**	**19.723**	**24.104**	**31.700**	**240.843**
Sources of Finance								
	Council Resources	9.908	21.413	20.653	9.367	4.495	3.687	69.523
	Contributions	2.204	3.484	5.650	0.500	2.000	0.750	14.588
	Grants	26.600	52.946	22.438	9.856	17.609	27.263	156.712
	Direct Revenue Finance	0.020	0.000	0.000	0.000	0.000	0.000	0.020
	Total Programme	**38.732**	**77.843**	**48.741**	**19.723**	**24.104**	**31.700**	**240.843**

Health & Adult Social Care

Scheme No.	Project Description	Budget 2021/22 £M	Budget 2022/23 £M	Budget 2023/24 £M	Budget 2024/25 £M	Budget 2025/26 £M	Budget 2026/27 £M	Total £M
CA0003	S106 - Centenary Quay	0.002	0.014	0.000	0.000	0.000	0.000	0.016
CA0006	Telecare Equipment	0.070	0.100	0.100	0.097	0.000	0.000	0.367
CA0009	Integrated Working	0.000	0.100	0.000	0.000	0.000	0.000	0.100
RCAP01	Holcroft House - Fire Safety Measures	0.000	0.610	0.000	0.000	0.000	0.000	0.610
		0.072	**0.824**	**0.100**	**0.097**	**0.000**	**0.000**	**1.093**
Sources of Finance								
	Council Resources	0.070	0.810	0.100	0.097	0.000	0.000	1.077
	Contributions	0.002	0.014	0.000	0.000	0.000		0.016
	Total Programme	**0.072**	**0.824**	**0.100**	**0.097**	**0.000**	**0.000**	**1.093**

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Southampton City Council

CAPITAL STRATEGY

2022/23

Contents

	SECTION 1 – INTRODUCTION
1.1	**Background**
1.1.1	This 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.
1.1.2	The Prudential Code requires the council to have in place a capital strategy that sets out the long term context in which capital expenditure decisions are made in order to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability.
1.1.3	Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised within this strategy.
	SECTION 2 - CAPITAL EXPENDITURE AND FINANCING
2.1	**Estimates of Capital Expenditure**
2.1.1	Capital expenditure is where the Authority spends money on assets, such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Authority has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year. In 2022/23 the Authority is planning capital expenditure of £201.51M, shown below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

Capital Expenditure and Financing	2020/21 Actual £M	2021/22 Forecast £M	2022/23 Forecast £M	2023/24 Forecast £M	2024/25 Forecast £M	2025/26 Forecast £M
General Fund	50.20	89.30	148.85	88.44	42.31	24.60
HRA	33.97	37.94	52.66	86.70	58.73	32.87
Total Expenditure	**84.17**	**127.25**	**201.51**	**175.13**	**101.03**	**57.48**
Capital Receipts	16.83	8.04	8.48	8.22	4.82	1.99
Capital Grants	30.31	56.84	72.23	24.38	9.90	17.61
Contributions	2.61	4.80	12.17	11.00	4.70	2.50
Major Repairs Allowance	19.06	22.24	23.56	24.90	25.36	26.01
Direct Revenue Financing	7.85	4.73	2.61	0.80	0.56	0.48
Council Resources - Borrowing	7.51	30.60	82.46	105.84	55.69	8.90
Total Financing	**84.17**	**127.25**	**201.51**	**175.13**	**101.03**	**57.48**

Due to changes in the accounting requirements for ‘right to use leases, which comes into effect on 1 April 2022, the Authority is currently assessing what impact

	this will have on the Capital programme, Capital Financing Requirement (CFR) and MRP liability. It is unlikely to have a significant impact.
2.1.2	All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing is shown in Table 1 above.
2.1.3	The main General Fund capital projects are summarised below, in Table 2, by portfolio.
2.1.4	*Table 2: General Fund Major Projects By Programme*

Programme	Major Project	2021/ 2022 £M	2022/ 2023 £M	2023/ 2024 £M	2024/ 2025 £M	2025/ 2026 £M	2026/ 2027 £M
Communities Culture & Heritage	Community Safety	1.52	3.43	0.00	0.00	0.00	0.00
	Arts & Heritage	0.89	8.56	0.00	0.00	0.00	0.00
	Estate Improvements - GF	0.23	1.12	0.00	0.00	0.00	0.00
	1000 Parking Spaces (GF)	0.00	2.12	0.00	0.00	0.00	0.00
	Outdoor Leisure	0.43	12.70	4.10	0.05	0.00	0.00
	Other	0.54	1.27	0.00	0.00	0.00	0.00
Customer Service & Transformation	Digital & IT	5.96	3.95	1.31	1.02	0.00	0.00
	Play Area Improvements	0.80	0.36	0.35	0.00	0.00	0.00
	Parks Development Works	1.32	1.45	0.00	0.00	0.00	0.00
	Fleet Investment	3.83	3.26	2.00	2.00	0.00	0.00
	Hoglands Park & Pavillion	0.00	0.25	0.75	0.00	0.00	0.00
	Other	0.96	1.76	0.00	0.00	0.00	0.00
Education & Children's Social Care	Early Years Expansion	0.37	0.25	0.00	0.00	0.00	0.00
	Primary Review & Expansion	0.26	0.10	0.00	0.00	0.00	0.00
	School Capital Maintenance	2.37	5.30	1.36	0.00	0.00	0.00
	Secondary Review & Expansion	25.10	9.85	0.60	0.04	0.00	0.00
	SEND Review & Expansion	0.88	7.84	24.02	14.18	0.00	0.00
	Childrens Services - Residential/Assessment Unit	1.65	0.67	0.00	0.00	0.00	0.00
	Other	0.44	1.50	0.03	0.00	0.00	0.00
Environment	River Itchen Flood Alleviation Scheme (RIFAS)	0.00	0.50	4.00	4.20	0.50	1.00
	Salix Energy Efficiency Measures	1.69	0.00	0.00	0.00	0.00	0.00
	Clean Air & Green City	0.08	0.86	0.08	0.00	0.00	0.00
	Other	0.55	0.00	0.00	0.00	0.00	0.00

Finance & Capital Assets	The Way We Work	0.63	3.11	1.00	1.00	0.00	0.00
Growth	Bridges Programme	1.63	1.28	3.80	0.00	0.00	0.00
	Highways Programme	11.44	17.53	17.31	8.30	0.00	0.00
	Integrated Transport	7.73	9.29	6.63	7.69	22.19	31.70
	Corporate Assets Decarbonisation Scheme (CADS)	1.78	2.35	2.00	2.00	1.91	0.00
	Transforming Cities	13.37	37.38	9.48	0.00	0.00	0.00
	Future Transport Zone	2.50	7.18	6.60	1.74	0.00	0.00
	Investment Property	0.00	2.25	0.59	0.00	0.00	0.00
	Materials Recycling Facility	0.00	0.58	2.34	0.00	0.00	0.00
	Other	0.29	0.00	0.00	0.00	0.00	0.00
Health & Adult Social Care	Health & Adult Social Care	0.07	0.21	0.10	0.10	0.00	0.00
	Fire Safety Measures	0.00	0.61	0.00	0.00	0.00	0.00
	TOTAL	**89.30**	**148.85**	**88.44**	**42.31**	**24.60**	**32.70**

2.1.5 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes the building of new homes. The main programmes are shown below:

Table 3: HRA Major Projects By Programme

Major Project	**2021/22 £M**	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**	**2025/26 £M**	**2026/27 £M**
Improving Quality of Homes	8.55	9.26	9.07	9.17	9.10	9.10
Making Homes Energy Efficient	1.44	7.76	11.51	11.62	6.67	6.67
Making Homes Safe	14.92	11.55	13.87	10.36	9.46	9.46
Passive Fire Safety	0.40	5.20	8.51	0.05	0.43	0.00
Supporting Communities	2.20	6.71	1.88	2.12	1.92	1.92
Supporting Independent Living	2.35	3.20	3.30	3.30	3.30	3.30
Regeneration	8.09	8.99	38.55	22.10	1.99	1.99
TOTAL	**37.95**	**52.67**	**86.69**	**58.72**	**32.87**	**32.44**

2.2 Governance

2.2.1 Service managers bid annually in November to include projects in the Authority's capital programme. Bids are collated by corporate finance who calculate the financing cost (which can be nil if the project is fully externally financed). The Change Authority Board (CAB) appraises all bids based on a comparison of service priorities against financing costs and makes recommendations to Cabinet members. The final capital programme is then presented to Cabinet and to Council in February each year.

	The Capital Strategy for 2022/23 is incorporated into the Revenue Budget 2022/23, Medium Term Financial Forecast 2022/23 to 2025/26 and Capital Programme 2021/22 to 2026/27 report, presented to Council on 23 February 2022.
2.3	**Methods of Funding**
2.3.1	Use of Leasing The council does have the option to lease assets utilising an operating lease arrangement, however with the flexibility afforded through Prudential Borrowing this source of financing is less attractive.
2.3.2	Local Enterprise Partnership (LEP) Funding Priorities are largely as set by the Government Department concerned and jobs created, private sector leverage and deliverability. The process to award funding is led by the LEP Executive and agreed by Board. The lead accountable body is Portsmouth City Council. Central Government is currently undertaking a review of the scope and governance surrounding LEP's, which is likely to have an effect on future funding.
2.3.3	Tax Increment Financing (TIF) The Local Government Finance Act 2012 which received Royal assent on 1 November 2012 provided the legislative framework for the introduction of TIF, as an incentive to grow local economies and attract new businesses to areas. In essence TIF allows councils to borrow against future increases in Business Rate revenues generated as a result of local developments and growth. By capturing predicted increases in income from business rates, it will create an income stream that can be used to borrow against, repay existing borrowing incurred under existing borrowing powers or to reimburse costs to a developer for the initial lay out of infrastructure work. This alternative financing for the infrastructure work is aimed at kick-starting regeneration and thereby supporting locally driven development and growth.
2.3.4	S106 Agreements S106 agreements are made with developers / landowners as part of the planning approval process to ensure that new development mitigates its own impact and provides the necessary site specific infrastructure to support it. These contributions are site specific or can be 'pooled' for a maximum of 5 site specific projects. Any contributions received are 'ring-fenced' for the purpose as set out in the relevant S106 agreement and are applied to fund schemes within the relevant capital programme once an eligible scheme has been identified. S106 contribution agreements have covered all types of infrastructure including transport, affordable housing, play areas, open spaces, playing fields, public realm and public art. However, since the council adopted CIL the planning obligations sought within S106 agreements have been scaled back to deal with only site specific requirements, as required by the CIL Regulations. Pooled contributions

	previously sought for strategic transport, public realm and public open space related obligations are now dealt with by CIL. The S106 contributions are time limited in that if they are not spent within an agreed timescale, typically 5 – 10 years, dependent on what has been agreed in the S106 agreement and any funds not spent in line with the agreement would have to be repaid to the developer, which, may include interest. With the exception of funding for affordable housing the other pooled S106 obligations, such as Strategic Transport, Public Realm and Public Open Space will become zero over time as the CIL continues to be applied.
2.3.5	<u>Community Infrastructure Levy (CIL)</u> CIL was adopted by the council in September 2013. CIL contributions are determined by set rates as detailed within the council's CIL Charging Schedule, and based on the amount of floor space being created by the development. CIL can be used to fund a wide range of infrastructure that is needed as a result of new development but is not site specific, giving more flexibility in where the funding can be used in geographical terms. The CIL does not replace the requirement of S106 contributions. S106 contributions will still be relevant and will be sought alongside CIL. The Planning Act and subsequent Community Infrastructure Levy Regulations 2010 (as amended) says that authorities can only spend CIL on providing infrastructure to support the development of their areas. This includes flood defence, open space, recreation and sport, roads and transport facilities, education and health facilities. However, it does not include affordable housing, which will continue to be funded by S106 obligations. In addition, SCC have opted to continue to seek S106 contributions for transport. All other S106s contributions are now agreed through CIL. The Localism Act also clarifies that CIL can be spent on the ongoing costs of providing infrastructure, including maintenance works. The funding could be used towards a significant number of the council's current programmes i.e. School Expansion and the Roads Programme. The CIL funding can be used to fund existing schemes within the current General Fund capital programme that meet the definition of infrastructure. The previous agreed approach is to treat the CIL monies as a central pot of funding to be allocated as overall council resources to fund the capital programme. However, it should be noted that 15% (25% if a Neighbourhood Plan is in place) of receipts need to be applied to schemes in the ward that the receipt originated from, in consultation and agreement with the local community. The current priorities for CIL funding are: • Heritage investment, • Community Recreation and Open Spaces inc Play Areas, • Road Safety Schemes inc 20mph zones/crossings, and • Public Realm/Monuments/Art.

2.3.6	Private Finance Initiative (PFI) Although PFI schemes are not shown within the capital programme as they are not financed by capital resources, PFI is a means by which the council can facilitate major new infrastructure projects. PFI schemes involve partnerships between the public and private sector to fund public sector infrastructure projects with private capital. Under PFI, a private sector contractor agrees to accept the risks associated with the design, construction and maintenance of the asset over the contract term, which is typically for a 25 year period. The public sector partner pays an annual fixed price during the contract term, part of which is subject to inflation. At the end of the term, the asset is wholly owned by the council. No additional PFI projects are anticipated. Any such proposals would be presented to the EMB for evaluation before presentation for Members approval.
2.4	**Gross Debt and the Capital Financing Requirement**
2.4.1	Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. The Authority's full MRP Strategy is detailed in annex 2.3(a).
2.4.2	The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £85M during 2022/23.
2.4.3	CFR is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the council should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as detailed in table 4 below.

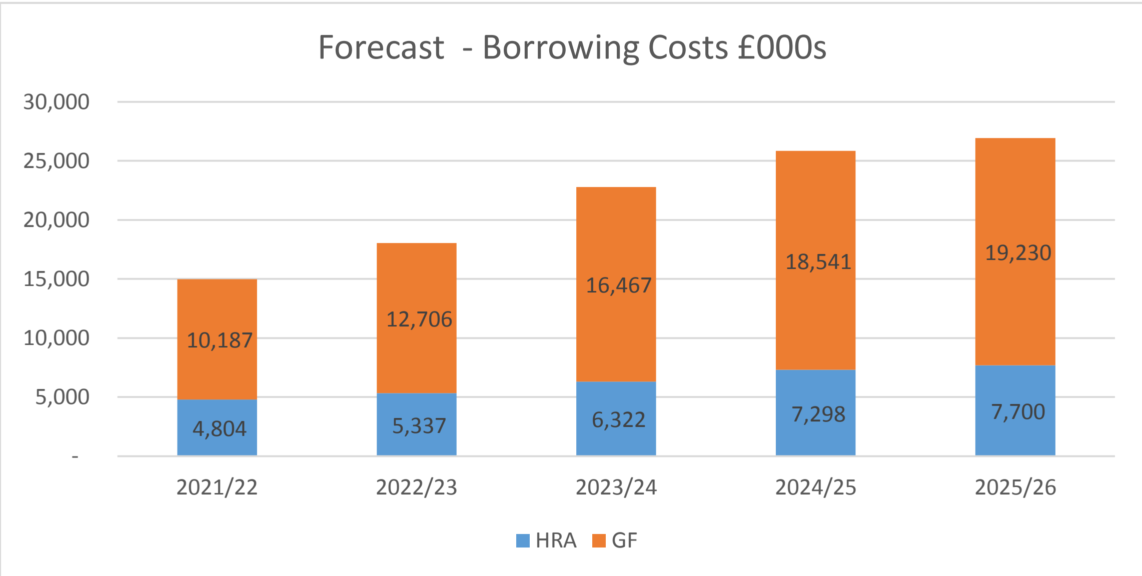
2.4.4	*Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £M*

Capital Financing Requirement	**31/03/2021 Actual £M**	**31/03/2022 Forecast £M**	**31/03/2023 Forecast £M**	**31/03/2024 Forecast £M**	**31/03/2025 Forecast £M**	**31/03/2026 Forecast £M**
Balance Brought forward	339.58	337.18	350.98	402.43	441.77	453.80
New Borrowing	7.52	24.67	62.99	53.06	27.71	4.49
MRP	(6.51)	(7.06)	(8.03)	(10.07)	(11.35)	(11.79)
Appropriations (to) from HRA *	0.00	0.00	0.00	0.00	0.00	0.00
Movement in Other Liabilities	(3.41)	(3.81)	(3.51)	(3.65)	(4.33)	(3.85)
MRP Holiday	0.00	0.00	0.00	0.00	0.00	0.00
Total General Fund Debt	**337.18**	**350.98**	**402.43**	**441.77**	**453.80**	**442.65**
HRA	169.13	194.15	227.58	287.80	318.09	322.50
Total CFR	**506.31**	**545.13**	**630.01**	**729.57**	**771.89**	**765.15**
Estimated Debt	306.39	389.97	501.26	600.82	642.96	639.31
Under / (Over) Borrowed	**199.91**	**155.16**	**128.75**	**128.75**	**128.93**	**125.84**

2.4.5	*Table 5 – Current and Estimated Movement in Gross Debt £M*

Gross Debt	**31/03/2021 Actual £M**	**31/03/2022 Forecast £M**	**31/03/2023 Forecast £M**	**31/03/2024 Forecast £M**	**31/03/2025 Forecast £M**	**31/03/2026 Forecast £M**
Borrowing (Long Term GF)	95.62	124.83	206.22	249.22	265.41	261.20
Borrowing (Long Term HRA)	135.97	194.17	227.57	287.78	318.09	322.49
Borrowing (Short Term)	10.36	10.35	10.35	10.35	10.35	10.35
Total Borrowing	**241.95**	**329.35**	**444.14**	**547.35**	**593.85**	**594.04**
Finance leases and Private Finance Initiatives	50.97	47.52	44.38	41.09	37.10	33.62
Transferred Debt	13.47	13.10	12.74	12.38	12.01	11.65
Total Other Debt	**64.44**	**60.62**	**57.12**	**53.47**	**49.11**	**45.27**
Total Debt	**306.39**	**389.97**	**501.26**	**600.82**	**642.96**	**639.31**

2.4.6	There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the council's level of balances, reserves, provisions and working capital as the council's strategy has been to only borrow to the level of its net borrowing requirement. The reasons for

	this are to reduce credit risk, take pressure off the council's lending list and also to avoid the cost of carry existing in the current interest rate environment.
2.4.7	Given the significant cuts to public expenditure and in particular to local government funding the council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With Short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short term to either use internal resources, or to borrow short-term instead.
2.4.8	By doing so, the council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the council with this 'cost of carry' and breakeven analysis.
2.4.9	Any change to the strategy would require approval by full Council and additional Treasury Training would be provided to assist members in understanding the risks and implications of any change to the current strategy.
	Revenue Impact of the Capital Programme
2.4.10	In terms of the impact on the revenue budget of the council the forecast for borrowing costs (for capital financing) in 2022/23 is £18.04M, of which £5.34M relates to the HRA. This is made up of interest on borrowing of £9.66M and other costs of £8.38M. This is expected to rise to £26.93M (£7.70M HRA) by 2025/26 to accommodate the capital programme, utilisation of reserves and refinancing of borrowing. However, this will be subject to movement as the need for further borrowing becomes more certain. The impact is also shown in the chart below: 

2.5	**Asset Management**
2.5.1	To ensure that capital assets continue to be of long-term use, the Authority has engaged a specialist to assist with the production of a comprehensive corporate asset management strategy. It is envisaged that the strategy will allow the council to plan effectively for its property needs now and in the future, focusing on: • what property assets the council owns and uses; • how property is used by the council; • how the council's property needs might change and evolve over time; • ensuring where possible that the council always has the right property fit for purpose. This work is ongoing and the Authority's Asset Management Strategy should be available in 2022/23.
2.5.2	When determining the capital programme and allocating resources the Council will also have regard to: • The preparation of the statutory Local Transport Plan, and Transport Asset Management Plan (TAMP); • The preparation of the Asset Management Plan for Schools and Council Buildings to ensure health and safety issues are dealt with appropriately; and • The council's obligation to finance adaptations to the homes of disabled residents. Funding is passported directly to the Better Care Fund along with the Adults Personal Social Services grant. It has been agreed with the CCG that these monies will be retained by the council, as part of the S75 pooling arrangement outlined in the Medium Term Financial Forecast (Annex 1.1).
2.6	**Asset Disposals**
2.6.1	When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts.
2.6.2	There are currently no planned significant asset disposals. During 2021/22 a review was undertaken of the council's historic investment property portfolio. The outcome of this will be fully considered in 2022/23 and may result in disposals where appropriate. Expected capital receipts are reported as part of the quarterly financial monitoring.
2.6.3	<u>Flexible use of Capital Receipts</u> The 2015 Comprehensive Spend Review (CSR) announced that local authorities will be allowed to spend up to 100% of capital receipts (excluding Right to Buy receipts) on the revenue costs of reform projects between 1st April 2016 to 31st March 2019, this was then extended until March 22. In February 2021 the Government announced that it would be extending the scheme for a further 3 years until March 2025 and further guidance would be issued. This has not be provided yet but is unlikely to differ significantly from the previous guidance which set the following conditions:

	• The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to the authority's net service expenditure and is expenditure on a project where incurring up-front costs will generate ongoing savings; and • Individual authorities demonstrate the highest standards of accountability and transparency. The guidance recommends that each authority should prepare a strategy that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full Council or the equivalent. • Examples of qualifying expenditure include the sharing of back office and administrative services; investment in service reform feasibility work; collaboration between central and local government to free up land for economic use; funding the cost of service reconfiguration or restructuring leading to ongoing efficiencies; sharing Chief Executives; driving a digital approach; aggregating procurement on common goods; improving systems and processes to tackle fraud; setting up commercial or alternative delivery models to deliver services more efficiently or increase revenue income; and integrating public facing services across two or more public sector bodies. Should the council opt to employ this policy a Flexible Use of Capital Receipts Strategy will be presented to Council in year.
2.6.4	The current strategy for the use of capital receipts is to: • Provide for an MRP holiday to the value of external loan payments generating a revenue budget saving; • Consider forgoing the immediate capital receipt for longer term and sustainable income stream through development of sites; and • Assume receipts from the sale of assets not currently on the market will not be taken into consideration when assessing the total value of receipts available to fund the capital programme.
2.6.5	<u>HRA Right to Buy Receipts</u> In most cases there will be no ring fencing of capital receipts to specific projects. One exception to this is the retained Right to Buy (RTB) receipts held by the council under the agreement signed in June 2012 and amended in June 2013. Under this agreement any retained RTB receipts, which are not used for the specific purpose of providing replacement affordable housing, must be returned to DLUHC.
	<u>SECTION 3 - TREASURY MANAGEMENT</u>
3.1	**Background**
3.1.1	Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue

	income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
3.2	**Borrowing strategy**
3.2.1	The Authority's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.10%) and long-term fixed rate loans where the future cost is known but higher (currently 1.5 to 2.5%). Projected levels of the Authority's total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt) are shown below, compared with the capital financing requirement (see above). Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Authority expects to comply with this in the medium term.
3.3	**Liability benchmark**
3.3.1	To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10M at each year-end. This benchmark is currently £320.31M and is forecast to rise to £583.77M over the next three years.

Table 6: Liability Benchmark in £M

	31/03/2021 Actual £M	31/03/2022 Forecast £M	31/03/2022 Forecast Movement £M	31/03/2023 Forecast £M	31/03/2024 Forecast £M	31/03/2025 Forecast £M	31/03/2026 Forecast £M
Loans CFR	**441.87**	**484.51**	**42.64**	**572.89**	**676.10**	**722.77**	**719.89**
Less Balance sheet Resources	(259.50)	(202.30)	57.20	(175.86)	(176.00)	(176.00)	(176.00)
Plus Minimum Investments	60.30	38.10	(22.20)	38.10	38.10	37.00	37.00
Liability Benchmark	**242.67**	**320.31**	**77.64**	**435.13**	**538.20**	**583.77**	**580.89**
Less Committed External Borrowing	(241.95)	(255.65)	(13.70)	(248.19)	(241.09)	(233.99)	(226.89)
Minimum Borrowing Need	**0.72**	**64.66**	**63.94**	**186.94**	**297.11**	**349.78**	**354.00**

3.4	**Affordable Borrowing Limit**
3.4.1	The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. The council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the council and not just those arising from capital spending reflected in the CFR.

3.4.2 The ***Authorised Limit*** sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases.

The Authorised Limit, shown in table 7, has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom to allow for unusual cash movements, for example a complete debt restructure requiring monies to be borrowed in advance of repayment of existing debt.

3.4.3 *Table 7 – Authorised Limit for External Debt £M*

Authorised Limit for External Debt	2021/22	2022/23	2023/24	2024/25
Borrowing	735	910	945	1140
Other Long-term Liabilities	70	65	65	60
Total	**805**	**975**	**1010**	**1200**

3.4.4 The ***Operational Boundary*** is linked directly to the council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit which allows for a full debt restructure if a favourable opportunity arose.

3.4.5 *Table 8 – Operational Boundary for External Debt £M*

Operational Boundary for External Debt	2021/22	2022/23	2023/24	2024/25
Borrowing	640	785	805	850
Other Long-term Liabilities	65	65	60	55
Total	**705**	**850**	**865**	**905**

3.4.6 The Executive Director for Finance, Commercialisation & S151 Officer has delegated authority, within the above limits for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Council will be notified of any use of this delegated authority.

3.5 Treasury Investment Strategy

3.5.1 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

3.5.2 The Authority's policy on treasury investments is to prioritise security and liquidity over yield, which is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to

	minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Authority may request its money back at short notice. Further details on treasury investments can be found in the Treasury Management Strategy. https://www.southampton.gov.uk/modernGov/documents/s54720/Enc.%201%20TREASURY%20MANAGEMENT%20STRATEGY%20202223.pdf
3.6	**Risk Management**
3.6.1	The effective management and control of risk are prime objectives of the Authority's treasury management activities. The Treasury Management Strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.
3.6.2	The treasury management prudential indicators are within the report (see link below) considered by the Governance Committee on 14 February 2022. https://www.southampton.gov.uk/modernGov/documents/s54720/Enc.%201%20TREASURY%20MANAGEMENT%20STRATEGY%20202223.pdf
3.7	**Governance**
3.7.1	Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Executive Director for Finance, Commercialisation & S151 Officer and staff, who must act in line with the Treasury Management Strategy to be approved by Governance Committee on 14th February 2022. Quarterly reports on treasury management activity are presented to Cabinet. The Governance Committee is responsible for scrutinising treasury management decisions.
	<u>SECTION 4 - INVESTMENTS FOR SERVICE PURPOSES</u>
4.1	**Background**
4.1.1	The Authority may make investments to assist local public services, including making loans to and buying shares in local service providers and businesses to promote economic growth. In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for such investments to break-even after all costs. Currently the council does not have any investments for service purposes, the criteria for potential investments in the future is set out in the Investment Strategy 2022/23 (annex 2.3(b)).
4.2	**Governance**
4.2.1	Decisions on service investments are made by the relevant service manager in consultation with the Executive Director for Finance, Commercialisation & S151

	Officer and must meet the criteria and limits laid down in the Investment Strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme. Further details on service investments are given in of the Investment Strategy 2022/23 (annex 2.3(b)).
	<u>SECTION 5 - COMMERCIAL ACTIVITIES</u>
5.1	**Background**
5.1.1	With central government financial support for local public services declining, the Authority invests in commercial property for financial gain. Total commercial investments are currently valued at £25.7M, consisting of 3 properties providing a net return after all costs of 2.13%. With financial return being the main objective, the Authority accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include reduced income due to rent voids or rent reductions and fall in capital value due to market conditions/demands. These risks are managed by performing credit checks on potential tenants, having a reserve set aside for voids and maintenance costs and regular monitoring to identify potential risks as early as possible. There are no plans for future commercial investments.
5.2	**Governance**
5.2.1	Decisions on commercial investments are made by the Head of Property and Executive Director for Finance, Commercialisation & S151 Officer, in consultation with the Cabinet Member for Finance & Income Generation and the Leader of the Council in line with the criteria and limits in the Property Investment Strategy approved by Council. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme. Further details on commercial investments and limits on their use are detailed in the Investment Strategy 2022/23 (annex 2.3(b)).
	<u>SECTION 6 – LIABILITIES</u>
6.1	**Background**
6.1.1	In addition to debt detailed above, the council has set aside an earmarked insurance reserve of £0.70M to cover risks of a potential liability created by Municipal Mutual Insurance (MMI) levy and other uninsured losses which might occur in the future. As at 31 March 2021, the council's outstanding potential liability under the SoA stood at £1.390M (2019/20 £1.390M), less the £0.347M payment already made under the Scheme of Arrangement with MMI.
6.2	**Governance**
6.2.1	Decisions on incurring new discretional liabilities are taken by service managers in consultation with the Executive Director for Finance, Commercialisation & S151

	Officer. The risk of liabilities crystallising and requiring payment is monitored by corporate finance and reported to the appropriate committee. New liabilities exceeding £2M are reported to full Council for approval/notification as appropriate. Further details on liabilities and guarantees are on pages 103 and 105 of the 2020/21 statement of accounts.
	<u>SECTION 7- REVENUE BUDGET IMPLICATIONS</u>
7.1	**Background**
7.1.1	Although capital expenditure is not charged directly to the revenue budget, interest payable on loans, MRP and loans fund repayments are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from council tax, business rates and general government grants.
7.2	**Ratio of financing costs to net revenue stream**
7.2.1	This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The upper limit for this ratio is currently set at 15%. The table below shows the likely position based on the proposed capital programme
7.2.2	*Table 10: Prudential Indicator: Ratio of financing costs to net revenue stream %*

Ratio of Financing Costs to Net Revenue Stream	2020/21 Actual %	2021/22 Forecast	2022/23 Forecast %	2023/24 Forecast %	2024/25 Forecast %	2025/26 Forecast %
General Fund	8.49	10.00	10.03	10.21	11.24	11.03
HRA	6.40	11.43	7.92	9.28	10.39	10.65
Total	**9.01**	**11.78**	**10.56**	**11.02**	**12.27**	**12.00**

7.2.3	This indicator is not so relevant for the HRA, especially since the introduction of self-financing, as financing costs have been built into their 40 year business plan, including the voluntary payment of MRP. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years, which it has currently opted to do.
7.3	**Sustainability**
7.3.1	Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 40 years into the future. The Executive Director for Finance, Commercialisation & S151 Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable.

	SECTION 8 - CAPACITY AND SKILLS
8.1	**Background**
8.1.1	The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Executive Director for Finance, Commercialisation & S151 Officer is a qualified accountant with extensive years' experience within local government at a senior level. The Authority pays for junior staff to study towards relevant professional qualifications including CIPFA, ACCA, AAT, ACT (treasury), ATT (tax). Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

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2022/23 MINIMUM REVENUE PROVISION (MRP) STATEMENT

Where the council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008, the council is required to make a prudent provision. The Local Government Act 2003 requires the council to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG guidance is to ensure that MRP charges on unsupported borrowing should be made over a period commensurate with the period the assets financed from borrowing continue to provide benefit. Where it is practical or appropriate to do so, the council may make voluntary revenue provision, or apply capital receipts, to reduce debt over a shorter period.

The MHCLG Guidance requires the council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP.

For borrowing incurred prior to 1st April 2008, when the prudential regime was introduced, MRP will be charged using the regulatory method over a 50 year life. The guidance determines this as the maximum useful life as this is the maximum PWLB borrowing term.

For prudential borrowing incurred after 31st March 2008 MRP will be determined the asset life method and charged over the expected useful life. This includes MRP for investment property, as the depreciation method used previously is no longer available for investment property following the revised guidance.

We will continue to review MRP and the Executive Director for Finance, Commercialisation & S151 Officer has delegated powers to change the proposed methods to aid good financial management whilst maintaining a prudent approach, should the need arise. Any changes required during the year will be reported as part of quarterly financial and performance monitoring and in revisions to the TM strategy as part of the year end and midyear reviews.

For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred on the loan is fully funded over the life of the assets.

There is no requirement for the Housing Revenue Account (HRA) to make MRP repayments but it has previously opted to make voluntary repayments. Provision has been made within its business plan to show that it can pay down debt over the life of the 40 year business plan.

MRP in respect of leases and Private Finance Initiative schemes brought onto the Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred balance sheet liability.

Where former operating leases have been brought onto the balance sheet on 1st April 2022 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

Capital expenditure incurred during 2022/23 and funded from borrowing will not be subject to an MRP charge until 2023/24.

Based on the council's latest estimate of its Capital Financing Requirement (CFR) on 31 March 2022, the budget for MRP has been set as follows:

Table 1 - Current and Estimated MRP and CFR for 2022/23

	31/03/2021 Actual CFR £M	2020/21 MRP Liability £M	31/03/2022 Estimated CFR £M	2022/23 Estimated MRP £M
Capital expenditure before 01.04.2008	88.76	1.75	87.01	1.74
Unsupported capital expenditure after 31.03.2008	183.99	5.15	203.51	6.29
Transferred debt	13.46	0.37	13.10	0.36
Finance leases and Private Finance Initiative	50.97	3.45	47.52	3.14
Total General Fund CFR and MRP Liability	**337.18**	**10.72**	**351.14**	**11.53**
Transfers			0.00	0.00
Net General Fund CFR and MRP Liability	**337.18**	**10.72**	**351.14**	**11.53**
Assets in the Housing Revenue Account	80.36	Nil	82.60	Nil
HRA subsidy reform payment	88.77	3.70	88.77	0.00
Transfers			0.00	0.00
Total Housing Revenue Account	**169.13**	**3.70**	**171.37**	**0.00**
Total	**506.31**	**14.42**	**522.51**	**11.53**

Southampton City Council

INVESTMENT STRATEGY

2022/23

Contents

	SECTION 1 – INTRODUCTION
1.1	**Background**
1.1.1	The Authority invests its money for three broad purposes: • because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments), • to support local public services by lending to or buying shares in other organisations (service investments), and • to earn investment income (known as commercial investments where this is the main purpose). This investment strategy meets the requirements of statutory investment guidance issued by the government in January 2018 and focuses on the second and third of these categories.
	SECTION 2 - TREASURY MANAGEMENT INVESTMENTS
2.1	**Background**
2.1.1	The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to be £38M at the end of 2022/23 financial year.
2.1.2	The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.
2.1.3	Full details of the Authority's policies and its plan for 2022/23 for treasury management investments are covered in a separate document, the Treasury Management Strategy.
	SECTION 3 - SERVICE INVESTMENTS: LOANS
3.1	**Background**
3.1.1	The Council is able to lend money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth. The council does not currently have any service loans.
3.2	**Security - Loan Limits**
3.2.1	The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as in Table 1 below.

3.2.2	**Table 1 – Loans for service purposes £M**

Category of Borrower	31.03.2021 Net showing in accounts	2022/23 Approved Limit
Subsidiaries	-	2.00
Suppliers	-	2.00
Other Public Sector Bodies	-	20.00
Charities	-	0.50

3.2.3 Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

3.3 **Potential Loan Criteria & Risk Assessment**

3.3.1 The council does not currently have any material loans but loans to subsidiaries may be considered, as part of a wider strategy for local economic growth, even though they may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity. Such loans will be considered when all of the following criteria are satisfied:

- The loan is given towards expenditure which would, if incurred by the council, be capital expenditure;
- The purpose for which the loan is given is consistent with the council's corporate / strategic objectives and priorities;
- Due diligence is carried out that confirms the council's legal powers to make the loan, and that assesses the risk of loss over the loan term;
- A formal loan agreement is put in place which stipulates the loan period, repayment terms and loan rate (which will be set at a level that seeks to mitigate any perceived risks of a loss being charged to the General Fund, and takes appropriate account of state aid rules) and any other terms that will protect the council from loss.

3.3.2 The council will assess the risk of loss before entering into and whilst holding service loans. It is likely that, should loans be considered in the future we would engage an external advisor to undertake an assessment of the market and relevant credit ratings. These ratings would be closely monitored and appropriate action taken swiftly should they change.

Should the council consider any service loans in the future a robust procedure will be in developed and reported to Council as an update to this strategy.

	SECTION 4 - SERVICE INVESTMENTS: SHARES
4.1	**Background**
4.1.1	The council is able to invest in the shares of its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth.
4.1.2	One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. The council does not currently have any material investment in shares nor is there any intention to do so at present. If this changed the council would undertake a risk assessment before entering purchase and would establish appropriate Prudential Indicators.
	SECTION 5 - COMMERCIAL INVESTMENTS: PROPERTY
5.1	**Background**
5.1.1	The council is able to invest in local, regional and UK commercial and residential property with the intention of making a profit that will be spent on local public services. Between 2016 and 2017, SCC implemented a strategy to invest in commercial properties with the expected return on investment being used to fund council services, known as the Property investment fund (PIF). To date the authority has purchased 3 properties, details are shown in table 2 below. These properties are expected to generate £1.8M income in 2021/22 a return of 1.97% against the amount invested.
5.1.2	*Table 2: Property Investment Fund £M*

Property	Actual	31.03.2021 Actual		31.03.2022 Expected			Outstanding Debt 31.03.2022
	Purchase Cost	Value in Accounts	Cumulative Gain or (Loss)	Value in Accounts	Cumulative Gain or (Loss)	Change In Year	
Property 1	6.47	5.21	(1.26)	4.88	(1.59)	(0.33)	5.86
Property 2	14.69	10.33	(4.36)	11.64	(3.05)	1.32	13.32
Property 3	8.53	8.73	0.20	9.17	0.64	0.43	7.73
	29.69	**24.27**	**(5.42)**	**25.69**	**(4.00)**	**1.42**	**26.91**

5.1.3	In addition to the properties purchased under PIF, the council holds an extensive historic property portfolio. Information relating to purchase price and any associated debt is not held, as this is not required by local authority legislation. The fair value of these properties at the 31 March 2021 was £113.1M a decrease of £5.1M from the year before. The year-end valuation of investment property was significantly impacted by COVID-19. The Valuation and Estates section are responsible for the ongoing management and monitoring of the portfolio (including PIF) and for 2020/21 net income for the total portfolio was £5.7M compared to £6.9M in 2019/20 a net return of 5.04% against the Fair Value (5.86% in 2019/20).

5.2	**Security**
5.2.1	In accordance with government guidance, the council considers property investment to be secure if its accounting valuation is at or higher than the amount of debt currently outstanding for the asset. As can be seen from the table above the fair value assessment of these properties at the 31 March 2022 will be below the purchase price, this was partly due to cost associated with the purchase (£1.79M) which in line with the MRP policy in place at the time, was charged to revenue in 2017/18. Debt repayments are now being made on the annuity basis and debt will reduce by approximately £0.25M per annum.
5.2.2	Table 2 also shows that the value of Property 1 is expected to drop further in 2021/22 due to the continued downturn in the retail sector. The fair value for properties 1 and 2 continues to be below the outstanding debt by £2.66M but is better than last year at £3.83M. As this is outside of the current policy, consideration has been given to the future of these assets, bearing in mind that a disposal would be likely to incur a large financial loss to the council. So whilst the properties are still providing a positive income yield, it makes no financial sense to dispose of the properties in the current economic climate, the council will continue to closely monitor the situation and report any further concerns through the relevant committees.
5.2.3	The council is therefore taking mitigating actions to protect the capital invested in Property 2, whilst supporting economic growth in the city. These actions include plans within the capital programme to divide the existing unit into two smaller units, to achieve the following benefits: • Creating more marketable units for future growth and support the changing needs of businesses, • Reducing exposure to one tenant’s income on such a large unit, • Improving the combined covenant strength underpinning this asset, and • Increasing the capital value of the asset above the value of outstanding debt and purchase cost. Once these works have been undertaken, a review will be undertaken to ensure that maintaining the asset is still appropriate.
5.3	**Risk Assessment**
5.3.1	The council assesses the risk of loss before purchasing investment property and monitors both the fair value and the return on the assets to assess the benefits of either retaining or disposing of the assets. External property consultants were engaged in 2021/22 to undertake an assessment of the council’s investment portfolio. The outcomes of this report will be considered in depth during 2022/23 and will include a review of potential disposals and further investments.
5.3.2	Budgeted investment income allows for voids and maintenance costs, which are reviewed as part of budget monitoring on individual properties to ensure they continue to provide the correct level of risk management.

5.4	**Liquidity**
5.4.1	Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. Therefore, in order to assess liquidity, the council monitors the income stream attached to property purchases, a much more liquid asset, comparing budgets to forecasts and actuals. Since purchasing the PIF properties actual income has and continues to be in line with the budgeted figure and there are no current indicators to suggest that the forecast future income will not be achieved. If there is any change this would be reported as part of the revenue financial monitoring process.
	SECTION 6 - CAPACITY AND SKILLS
6.1	**Elected members and statutory officers**
6.1.1	CIPFA's Code of Practice requires the CFO to ensure that all Members tasked with Treasury Management (TM) responsibilities, including scrutiny of the TM function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Treasury training is offered to all members annually, which is undertaken by our advisors, Arlingclose, the next session will be in March 2022. Further training is also provided if the need arises, for example a change in leadership and the makeup of Governance Committee. We would also arrange additional training if there was to be a material change in the Treasury Management Strategy, explaining the reasoning behind it, so that Members understand what they are being asked to approve. For officers the council adopts a continuous performance and development programme to ensure staff are regularly appraised and any training needs addressed. Relevant staff also attend regular training sessions, seminars and workshops which ensure their knowledge is up to date. Details of training received are maintained as part of the performance and development process.
6.2	**Commercial deals**
6.2.1	Notwithstanding the current hold on the Property Investment Fund, future commercial investments will be subject to a detailed business case and need the relevant approvals. The council has a robust process in place for property investment and therefore has a separate Property Investment Strategy. It sets out the scoring criteria each investment will be subjected to, including financial checks on potential tenants to evidence their financial stability and risk level. An independent valuation will also be conducted to obtain a level of assurance that the price quoted, and the rent charged were in line with the expected market rate. Once all criteria are met final agreement is required by the S151 Officer, Head of Property, the Cabinet Member for Finance & Capital Assets and the Leader of the Council. The council has an experienced in-house estates and valuation team, who will manage the process and the day-to-day management of any investments. The use of external experts will be employed where specialist knowledge is required in the acquisition, disposal or performance management of commercial property.

	SECTION 7 - INVESTMENT INDICATORS
7.1	**Background**
7.1.1	The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.
7.2	**Total Risk Exposure**
7.2.1	This indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.
7.2.2	*Table 3:Total investment exposure £M*

Total Investment Exposure	***31.03.2021 Actual***	***31.03.2022 Forecast***	***31.03.2023 Forecast***
Treasury management investments	***60.3***	***38.1***	***38.1***
Service investments: Loans	***0.0***	***0.0***	***0.0***
Commercial Investments: PIF	***27.2***	***26.9***	***26.6***
Commercial Investments: Non PIF			
TOTAL EXPOSURE	***87.5***	***65.0***	***64.7***

7.3	**How Investments are Funded**
7.3.1	Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.
7.3.2	*Table 4: Investments funded by borrowing and loan to value ratio*

Investment funded by borrowing	***2020/21 Actual***	***Loan to Value Ratio***	***2021/22 Forecast***	***Loan to Value Ratio***	***2022/23 Forecast***	***Loan to Value Ratio***
	£M	***%***	***£M***	***%***	***£M***	***%***
Commercial Investments: Property (PIF)	***27.2***	***112***	***26.9***	***105***	***26.6***	***104***

The maximum loan to value indicator is set at 100% if the fair value of the asset was to fall below the outstanding loan value then this would be reported to Council and the authority would look to take steps to assess the viability of holding the investment.

7.4	**Rate of return received**
7.4.1	This indicator shows the investment income received less associated costs, including the cost of borrowing, as a proportion of the debt outstanding. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.
7.4.2	*Table 5: Investment rate of return (net of all costs)*

Investment net rate of return	***2020/21 Actual***	***2021/22 Forecast***	***2022/23 Forecast***
	%	***%***	***%***
Property 1	***2.55***	***2.63***	***2.65***
Property 2	***2.60***	***2.55***	***2.58***
Property 3	***1.85***	***1.79***	***1.81***
Total Average Rate of Return	***2.38***	***2.35***	***2.37***

THE HRA REVENUE BUDGET 2022/23 AND CAPITAL PROGRAMME 2021/22 TO 2026/27	
	HOUSING REVENUE ACCOUNT (HRA) BUDGET 2022/23
	Context
1.	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. This includes housing and estate management, repairs, improvements, and statutory compliance activity; welfare advice, employment and skills support, support to address anti-social behaviour and support for the victims of domestic abuse; supported housing services for older people and those with extra care needs, neighbourhood wardens, and capital spending on council properties.
	2021/22 Forecast Outturn
2.	The HRA year-end forecast position as at the end of December 2021 for 2021/22 shows a favourable variance of £0.92M compared to a budget of £75.87M on 'business as usual' activity, with an additional favourable variance of £0.56M relating to reduced bad debt provision, which had initially been increased as a result of higher expected arrears following the Council's response to COVID-19. However, the predicted level of bad debt has not arisen resulting in this favourable position emerging.
	HRA Medium Term Financial Position
3.	This report sets out the HRA revenue budget for 2022/23 and the 40 year HRA business plan, covering the period 2022/23 to 2061/62.
4.	Following the Chancellor's announcement in the 2018 Autumn Budget, restrictions relating to HRA borrowing have been lifted, and there is now greater emphasis for councils to plan their new build strategy and financing at a local level.
5.	The HRA Business Plan supports a number of council strategies, including the Medium Term Financial Strategy, to ensure plans are affordable and budgets are aligned to the assumptions detailed in those strategies. The specific HRA Business Plan priorities are summarised below: • All HRA debt is sustainable on a yearly basis. • The capital spending plans include provision to maintain and improve all existing dwellings and is based on a Housing stock capital strategy that continues to be developed and enhanced. • Capital regeneration budgets have been reduced to reflect the Councils stated priority for working in partnership with other Registered Providers to deliver future regeneration, as opposed to in-house delivery. A Capital provision of £60M is set aside for committed stock replacement at plots 2, 9 and 10 Townhill Park between 2021/22 and 2024/25 based on the existing financial assumptions. These will need to be revised when final scheme costings have been received and viability assessed. • An assumption that future development will be on the basis of a model of working with Registered Providers and utilising land disposals and future Right to Buy receipts to support stock replacement, replacing the existing acquisitions assumption. This is currently being worked through and will be further developed in a future iteration of the business plan model.

	• The revenue budget protects the minimum balances of £2.0M per year over the life of the Plan.
6.	The HRA Business Plan shows revenue balances that increase above minimum levels within the 40 year period. This has been mitigated to an extent by repayment of loans outstanding across the life of the Business Plan. The surpluses are subject to change annually and will reflect the annual review of stock investment needs (including commitments not yet costed, such as zero carbon ambition and future building safety requirements), estimated unit income and expenditure, as well as the prevailing external economic factors of the time.
	Rent & Service Charge Increases
7.	Under current Government guidance the Council can increase rent by a maximum of CPI plus 1 per cent based on the September CPI position. The Council is also required to set charges for communal heating in certain properties. Following the recent wholesale energy price increases, it is necessary to increase heating charges in order to ensure costs are being fully recovered. The proposal for rent and service charge increases is as follows: • No increase in Rent • No increase in Service Charges • No increase in Supported Accommodation Service Charges • District heating charge increase of 16.52 per cent
	Rents
8.	It is proposed that rents are not increased in 2022/23, despite Central Government guidelines for HRA rents allowing rent increases based on the Consumer Price Index (CPI) as at the previous September (2021) plus 1 per cent for tenants who are at or below formula rent (the government approved method of calculating social rent), or CPI for those tenants who are above formula rent. CPI in September 2021 was 3.1 per cent. The latest guidance, which was issued in 2020 by the then Ministry of Housing, Communities and Local Government, states that rents can increase by up to CPI+1 per cent (subject to the formula rent proviso above) for the years 2023/24 to 2024/25, and after that by up to CPI. These assumptions have been built into the HRA Business Plan. Although the Council is able to increase rent by up to 4.1 per cent for 2022/23, it is proposed to freeze rent and service charges to minimise impact on tenants who are facing increases in cost through increasing inflation, energy bills and fuel costs, concurrent with reducing universal credit from October 2021. The proposed rent freeze foregoes £1.3M in additional income in 2022/23, and £157M over the life of the 40 year business plan.
9.	It should be noted that the proposed rental increases are in the context of rental income lost in the four years from 2016/17 to 2019/20, where a 1 per cent per annum rent reduction was imposed on the HRA via Central Government instruction. This has led to a permanent divergence from previously inflation linked base rents, and an overall reduction to income compared to an inflationary linked rise of £33.7M by 2020/21 as set out in Table 1 below.

10. Table 1 – HRA Estimated Rent Loss

HRA ESTIMATED RENT LOSS COMPARISON DUE TO 1% RENT REDUCTION P.A. FOR 4 YEARS FROM APRIL 2016

			With 1% reduction			Without 1% reduction					
	Year	Stock	% Change from previous year	With Reductions	Estimated Income	Assumed CPI increase (prior to 20/21) if no 1% decrease	Per previous increases	Estimated Income	In year Loss	% in year loss of income (est)	Running total income loss
	2015.16	16,503		87.18	75,102,997		87.18	75,102,997	0		
Rent reduction period	2016.17	16,363	-1.0%	86.31	73,721,216	0.9%	87.97	75,136,068	-1,414,852	2%	-1,414,852
	2017.18	16,223	-1.0%	85.45	72,359,561	2.0%	89.73	75,983,077	-3,623,515	5%	-5,038,367
	2018.19	16,083	-1.0%	84.59	71,017,767	4.0%	93.31	78,340,458	-7,322,691	9%	-12,361,058
	2019.20	15,943	-1.0%	83.75	69,695,573	3.4%	96.49	80,298,906	-10,603,333	13%	-22,964,391
CPI + 1% period	2020.21	15,828	2.7%	86.07	71,112,893	2.7%	99.09	81,872,126	-10,759,233	13%	-33,723,624

Service Charges

11. The current charging mechanism for service charges in the HRA does not currently recover all costs that are applicable for a service charge. This means that general tenant rent is currently covering some of the costs associated with these specific areas. Work is ongoing to review the extent of the ‘gap’ between costs and income and recommendations around this will be made following that review. However, for 2022/23, the proposal is to freeze service charges as they currently stand.

12. The weekly charges to be levied for next year are shown in Tables 2 and 3 below.

13. Table 2 – General Service Charges

	21/22	**22/23**
Concierge monitoring	£2.77	£2.77
Walk-Up Block Wardens	£1.47	£1.47
Cleaning service in walk-up blocks	£0.73	£0.73
Door Entry System	£0.22	£0.22
Emergency Lighting Testing	£0.27	£0.27
Garden/Ground Maintenance	£0.22	£0.22
Tower Block Wardens	£5.20	£5.20

14. Table 3 – Supported Accommodation

	21/22	**22/23**
Community Alarm	£1.31	£1.31
Support	£2.76	£2.76
Management	£5.13	£5.13
Careline Silver	£3.14	£3.14
Careline Gold	£4.45	£4.45

Heating Charges

15. The annual review of the Landlord-Controlled Heating (LCH) account projects a deficit of £0.68M, and the latest information on future price changes (provided by our energy procurement partners) suggest price increases of 6 per cent for electricity and gas in 2022/23. The primary driver for price increases has been the recent increases in wholesale prices, which is a significant risk as noted in para 19 in the covering report, and these will

	be monitored carefully. As 90 per cent of the energy used by LCH is electricity, it is proposed that the charges to tenants for 2022/23 will increase by 16.52 per cent. Annex 3.2 shows the proposed weekly and annual changes by band. The bands are set on the basis of floor space in square metres, ensuring smaller properties pay proportionately less than larger properties, and a specific band (J) for hostels. The proposed percentage increase is applied equally to each band. This increase (and future annual increases in line with energy inflation) are designed to maintain equilibrium on the account over the next five years, while avoiding the large deficit/surplus swings of the past.
	Other Key Assumptions
16.	Rent arrears have continued to rise in the current financial year, 2021/22, linked to the impact of Welfare Reform and exacerbated by the impact of COVID-19. Following this in the 2021/22 plan, the bad debt provision was increased by 3 per cent in 2021/22 and 2022/23. Work undertaken to date suggests that a reduction in the existing 2022/23 provision contribution is reasonable, and further work will be done to review the provision in light of arrears levels through 2022. It is expected that in the longer term, the debt position will stabilise in line with national policies and internal debt collection processes.
17.	The cyclical maintenance budgets have been increased by £2M per annum to take account of increased statutory landlord responsibilities for fire safety, water safety, electrical and mechanical safety.
18.	Other cost pressures, staffing inflation estimated at 1.75 per cent, general inflation on building materials costs, and fuel have also been built into the model.
19.	Some changes to key assumptions have been made to accommodate the rental freeze in the HRA model. Historically it has been common practise to utilise any surplus in the HRA to facilitate early repayment of borrowing where practical. This has the advantage of reducing long term interest costs and ensuring future affordability of the HRA programme. However, it is proposed to utilise any surplus in 2021/22 to support the pressures identified for 2022/23.
20.	A further change made to the business plan has been to revise the capital programme projection for 1,000 homes and asset acquisitions to include only the currently committed developments at plots 2,9 and 10 Townhill Park. This has significantly reduced the borrowing requirement within the business plan model. Final costs for the development at Townhill Park are not yet established, and the business plan will be updated when these become available.
21.	In addition to the above, debt profiling across the 40 year period has been reviewed and updated to ensure the working balance is suitably maintained. A reduction in bad debt provision has been factored in subject to further work to take place on reducing the current level of arrears.
22.	After the above actions have been taken, there is still a requirement to make savings of £1M per annum by 2027/28 to maintain a working balance at year 40 equivalent to that of 2021/22's business plan, ensuring all committed borrowing in the model is repayable. Options for achieving savings include reviewing non statutory service delivery and the extent of the Capital Programme, and options will be brought forward in due course.
	HRA Balances
23.	The HRA Business Plan revenue balances enable a longer-term repayment of debt to take place. Following recent cost pressures, and the removal of the debt cap leading to ongoing regeneration/new build borrowing, debt repayments are still taking place during the life of the Business Plan. The proposed model assumes repayment of all debt within the 40 year plan. This level of debt forecast in 40 years is prudent.

24.	A significant risk to the long-term plan is that, if property works related inflation was to exceed general inflation over a prolonged period, this could have a significant adverse impact on HRA balances as property costs would begin to exceed rental income. This risk becomes more significant in the light of the proposed rent freeze. Therefore, the forecast financial position is subject to annual review based on the prevailing economic factors and will also reflect the annual review of stock investment needs and estimated unit rates.
25.	The other significant risk is changes in Central Government rental policy in the future. The current guidance is for rents to increase over a period of the next 4 years by CPI + 1 per cent inflation. Policy thereafter is rent increases at CPI per annum.
26.	It will be necessary to regularly undertake sensitivity analysis to assess the impact of external influences such as building inflation and changes to CPI on the business plan so that the overall budget position can be maintained to support investment in services and properties to meet the expectations of tenants and our regulatory requirements.
27.	The HRA minimum balance will remain at £2.0M per year.
	HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME 2021/22 TO 2026/27
28.	The purpose of this section of the report is to update the HRA Capital Programme for the period of 2021/22 to 2026/27, highlighting the changes in the programme since the last reported position to Cabinet in November 2021.The Capital Programme has been subject to a review of each line, taking into account new legal and statutory requirements in relation to all of our compliance activity and the principles of the draft Housing Asset Management Strategy. Consideration has also been given to ensuring budget lines are realistic and achievable and take into account expected slippages from the 2021/22 financial year which has continued to be affected by COVID, where appropriate.
	THE FORWARD CAPITAL PROGRAMME
29.	Table 4 shows a comparison of the latest capital expenditure for the period 2021/22 to 2025/26 compared to the previously reported programme.
30.	Table 4 – Programme Summary

Reported Programme	**2021/22 £M**	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**	**2025/26 £M**	**2026/27 £M**	**Total £M**
Latest	37.94	52.66	86.70	58.73	32.87	32.44	301.34
Previous	38.59	101.88	100.93	69.95	30.42	29.62	371.39
Variance	(0.65)	(49.22)	(14.23)	(11.22)	2.45	2.82	(70.05)

NB: Table includes rounded figures

31.	There is an overall reduction in the HRA capital programme over this period of £70.05M to £301.34M, predominantly as a result of changes to the regeneration capital budgets. The revised programme is shown by major project in table 5 below and detailed in paragraphs 33-39. A full breakdown by project is provided in Appendix 5 (confidential).
32.	Table 5 – Major Schemes by Major Project

	Financial Years						
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Totals
Improving Quality of Homes	£ 8,549,000	£ 9,257,453	£ 9,073,212	£ 9,172,000	£ 9,102,000	£ 9,102,000	**£ 54,255,665**
Making Homes Energy Efficient	£ 1,441,100	£ 7,755,333	£ 11,510,000	£ 11,622,000	£ 6,672,000	£ 6,672,000	**£ 45,672,433**
Passive fire safety	£ 400,000	£ 5,200,000	£ 8,507,000	£ 48,000	£ 431,000	£ -	**£ 14,586,000**
Making Homes Safe	£ 14,922,000	£ 11,550,000	£ 13,871,215	£ 10,360,000	£ 9,460,000	£ 9,460,000	**£ 69,623,215**
Supporting Communities	£ 2,196,000	£ 6,707,000	£ 1,879,000	£ 2,121,000	£ 1,921,000	£ 1,921,000	**£ 16,745,000**
Supporting Independent Living	£ 2,351,000	£ 3,203,500	£ 3,303,500	£ 3,303,500	£ 3,303,500	£ 3,303,500	**£ 18,768,500**
Estate regeneration / New-build	£ 8,085,000	£ 8,990,000	£ 38,551,138	£ 22,100,862	£ 1,985,000	£ 1,985,000	**£ 81,697,000**
Totals	**£ 37,944,100**	**£ 52,663,286**	**£ 86,695,065**	**£ 58,727,362**	**£ 32,874,500**	**£ 32,443,500**	**£ 301,347,813**

MAJOR PROGRAMME CHANGES

33. **Improving the Quality of Homes**
This category focuses on the major replacement, asset refurbishment and modernisation of the assets through component investment within properties. This includes communal areas as well as within occupied homes. The impact of investment will be reflected in such KPIs as the Council's ability to reduce void turnaround times and reduce the average cost of reactive repairs. Key changes include the introduction of an annual budget for reclassification of major reactive works identified in year, and budget for balcony rectification works, and a revised medium term estimate for lift refurbishment work.

34. **Making Homes Energy Efficient**
This category groups spend that improves the thermal efficiency of assets and introduces efficient heating appliances into homes. These measures help tackle social issues such as fuel poverty and targets the provision of a comfortable home. The impact of such investment is reflected in improved asset SAP (Standard Asset Procedure) rating. This category also directly targets the Council's Carbon Neutrality commitment. The main reductions in this line, relate to; Thornhill, a project scheduled for closure in 2022/23 for which an ongoing budget had been erroneously assumed; a more realistic estimate for annual spend on external door and window upgrades, and removal of budgets for which feasibility work has not yet been undertaken. The Energy Efficiency capital programme will be subject to further work in early 2022/23 to develop a plan to meet the stated ambition to achieve zero carbon commitments by 2040 and this will be built into the capital programme following this exercise.

35. **Making Homes Safe**
This category focuses on expenditure relating to the safety of the assets themselves including fire safety, structural works, asbestos removal, and investment related to statutory building compliance. The impact of such investment would be reflected in the Council's ability to robustly deliver its related statutory obligations, demonstrated by performance reporting. The main changes to the capital programme relate to the inclusion of budgets for fire detection upgrades and increasing existing budgets for fire safety remedial works and sprinkler installations over the 5 year period.

36. **Supporting Communities**
This category relates to investment in the neighbourhoods of existing Council estates and encourages engagement with local communities to develop positive outcomes within the locality. The main change to the budget relates to the inclusion of the 1,000 parking spaces programme for 2022/23, of which a number will be within HRA estates, and removal of discretionary budgets no longer required.

37. **Supporting Independent Living**
This investment addresses the accessibility of homes to support people living independently through the delivery of adaptations or the investment facilities within the Supported housing element of the housing portfolio. The impact of such investment is demonstrated by KPIs reporting how long disabled tenants must wait for adaptations to their homes. The main change to budget relates to an increase to the disabled adaptations budgets in line with current levels of demand.

38. **Estate Regeneration/New Build** (£88.21M Reduction over 5 years)

	Capital budget for Estate Regeneration was intended to cover the cost of acquisitions and new build housing. This has been reduced to reflect the Councils stated priority for working in partnership with other Registered Providers to deliver future regeneration, as opposed to in-house delivery. The remaining investment predominantly relates to the completion costs at Starboard Way and build costs for plots 2,9 and 10 at Townhill Park, currently estimated at £60m over the next five years. Any further Capital spend on regeneration and acquisitions beyond this has been removed from the capital programme.

39. Council is asked to approve the above changes, representing an overall £70.05M reduction to the HRA programme with approval to spend as detailed above. Additions are to be funded through a combination of capital receipts, the Major Repairs Allowance, direct revenue financing and council resources.

40 Table 6 – HRA Capital Programme Resourcing

	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	Total £M
HRA Programme	**£ 37.94**	**£ 52.66**	**£ 86.70**	**£ 58.73**	**£ 32.87**	**£ 32.44**	**£ 301.34**
*CR - Borrowing	(7.22)	(19.22)	(53.50)	(28.49)	(4.26)	(3.82)	(116.51)
Right to Buy & Capital Receipts	(5.63)	(6.89)	(8.22)	(4.82)	(2.56)	(2.56)	(30.68)
Grants	(0.25)	(0.45)	0	0	0	0	(0.70)
Revenue Financing	(3.92)	(2.54)	(0.08)	(0.05)	(0.05)	(0.05)	(6.69)
MRA	(20.92)	(23.56)	(24.90)	(25.36)	(26.01)	(26.01)	(146.76)
Total Financing	**(37.94)**	**(52.66)**	**(86.70)**	**(58.73)**	**(32.87)**	**(32.44)**	**(301.34)**

Annexes

3.1 HRA 40 Year Business Plan Operating Account

3.2 HRA Heating Charges

3.3 HRA Major Repairs and Improvement Plan

		Income			Expenditure														
Year	Year	Net rent Income	Other income	Total Income	Managt.	Depreciation	Responsive & Cyclical	Other Revenue spend	Total expenses	Capital Charges	**Net Operating (Expenditure)**	Repayment of loans	Transfer to MRR	Transfer from / (to) Revenue Reserve	RCCO	**Surplus (Deficit) for the Year**	**Surplus (Deficit) b/fwd**	**Interest**	**Surplus (Deficit) c/fwd**
		£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	**£,000**	£,000	£,000	£,000	£,000	**£,000**	**£,000**	**£,000**	**£,000**
1	2022.23	71,390	3,520	74,909	(23,555)	(23,762)	(20,630)	(100)	(68,046)	(5,235)	1,627	0	0	0	(2,547)	(920)	2,920	0	2,000
2	2023.24	73,936	3,657	77,593	(24,420)	(24,702)	(21,165)	(105)	(70,392)	(6,059)	1,143	(0)	0	0	(1,143)	0	2,000	0	2,000
3	2024.25	75,930	3,737	79,668	(24,984)	(25,364)	(21,476)	(108)	(71,933)	(7,007)	728	(0)	0	0	(728)	(0)	2,000	0	2,000
4	2025.26	77,862	3,801	81,662	(25,447)	(26,008)	(21,970)	(112)	(73,536)	(7,414)	713	(0)	0	0	(713)	0	2,000	0	2,000
5	2026.27	80,359	3,862	84,220	(25,895)	(26,862)	(22,385)	(115)	(75,256)	(7,497)	1,468	(0)	0	0	(556)	912	2,000	0	2,912
6	2027.28	82,460	3,923	86,383	(26,351)	(27,756)	(22,651)	(118)	(76,875)	(7,554)	1,954	(0)	0	0	(155)	1,799	2,912	0	4,710
7	2028.29	84,114	3,986	88,100	(26,815)	(28,475)	(22,919)	(121)	(78,330)	(7,617)	2,154	0	0	0	0	2,154	4,710	0	6,864
8	2029.30	85,798	4,050	89,848	(27,287)	(29,213)	(23,188)	(125)	(79,813)	(7,685)	2,350	0	0	0	0	2,350	6,864	0	9,214
9	2030.31	87,511	4,115	91,626	(27,768)	(29,969)	(23,460)	(128)	(81,325)	(7,760)	2,541	0	0	0	0	2,541	9,214	0	11,755
10	2031.32	89,255	4,181	93,436	(28,257)	(30,745)	(23,732)	(132)	(82,867)	(7,822)	2,748	0	0	0	0	2,748	11,755	0	14,503
11	2032.33	91,030	4,248	95,277	(28,755)	(31,542)	(24,007)	(135)	(84,439)	(7,975)	2,864	0	0	0	0	2,864	14,503	0	17,367
12	2033.34	92,752	4,315	97,067	(29,261)	(32,358)	(24,283)	(139)	(86,041)	(8,399)	2,627	(1,556)	0	0	0	1,071	17,367	0	18,438
13	2034.35	94,493	4,385	98,878	(29,776)	(33,196)	(24,560)	(143)	(87,675)	(8,846)	2,357	(3,707)	0	0	0	(1,350)	18,438	0	17,088
14	2035.36	96,253	4,455	100,708	(30,300)	(34,048)	(24,839)	(147)	(89,334)	(8,772)	2,602	(9,619)	0	0	0	(7,017)	17,088	0	10,071
15	2036.37	98,047	4,526	102,573	(30,833)	(34,923)	(25,119)	(151)	(91,025)	(8,500)	3,048	(2,826)	0	0	0	222	10,071	0	10,293
16	2037.38	99,875	4,598	104,473	(31,375)	(35,819)	(25,401)	(155)	(92,750)	(8,251)	3,472	(5,091)	0	0	0	(1,619)	10,293	0	8,674
17	2038.39	101,737	4,672	106,409	(31,926)	(36,739)	(25,966)	(160)	(94,790)	(7,828)	3,790	(4,880)	0	0	0	(1,089)	8,674	0	7,585
18	2039.40	103,634	4,747	108,381	(32,487)	(37,681)	(26,544)	(164)	(96,876)	(7,521)	3,983	(2,192)	0	0	0	1,791	7,585	0	9,376
19	2040.41	105,567	4,823	110,390	(33,059)	(38,648)	(27,135)	(169)	(99,010)	(7,273)	4,107	(1,966)	0	0	0	2,140	9,376	0	11,516
20	2041.42	107,537	4,900	112,437	(33,640)	(39,639)	(27,739)	(173)	(101,192)	(7,025)	4,220	0	0	0	0	4,220	11,516	0	15,736
21	2042.43	109,544	4,978	114,522	(34,231)	(40,656)	(28,357)	(178)	(103,423)	(6,752)	4,347	0	0	0	0	4,347	15,736	0	20,083
22	2043.44	111,589	5,058	116,647	(34,833)	(41,698)	(28,990)	(183)	(105,704)	(6,416)	4,527	0	0	0	0	4,527	20,083	0	24,610
23	2044.45	113,673	5,139	118,812	(35,445)	(42,767)	(29,637)	(188)	(108,038)	(6,172)	4,602	0	0	0	0	4,602	24,610	0	29,212
24	2045.46	115,797	5,221	121,018	(36,069)	(43,863)	(30,298)	(194)	(110,424)	(5,929)	4,665	0	0	0	0	4,665	29,212	0	33,877
25	2046.47	117,960	5,305	123,265	(36,703)	(44,987)	(30,975)	(199)	(112,864)	(5,685)	4,715	0	0	0	0	4,715	33,877	0	38,592
26	2047.48	120,165	5,389	125,554	(37,348)	(46,140)	(31,667)	(205)	(115,360)	(5,442)	4,752	0	0	0	0	4,752	38,592	0	43,345
27	2048.49	122,412	5,476	127,887	(38,005)	(47,322)	(32,376)	(210)	(117,912)	(5,199)	4,776	0	0	0	0	4,776	43,345	0	48,121
28	2049.50	124,701	5,563	130,264	(38,673)	(48,533)	(33,100)	(216)	(120,523)	(4,955)	4,786	0	0	0	0	4,786	48,121	0	52,907
29	2050.51	127,034	5,652	132,686	(39,353)	(49,776)	(33,841)	(222)	(123,192)	(4,184)	5,310	(10,210)	0	0	0	(4,900)	52,907	0	48,007
30	2051.52	129,411	5,743	135,154	(40,044)	(51,050)	(34,600)	(229)	(125,923)	(3,887)	5,344	(9,061)	0	0	0	(3,717)	48,007	0	44,290
31	2052.53	131,833	5,835	137,668	(40,748)	(52,356)	(35,375)	(235)	(128,715)	(3,340)	5,613	(8,208)	0	0	0	(2,595)	44,290	0	41,694
32	2053.54	134,302	5,928	140,230	(41,465)	(53,696)	(36,169)	(242)	(131,571)	(2,784)	5,875	(6,381)	0	0	0	(506)	41,694	0	41,188
33	2054.55	136,817	6,023	142,840	(42,194)	(55,069)	(36,981)	(248)	(134,492)	(2,388)	5,960	(3,553)	0	0	0	2,407	41,188	0	43,595
34	2055.56	139,381	6,119	145,500	(42,936)	(56,478)	(37,811)	(255)	(137,480)	(2,013)	6,007	(2,130)	0	0	0	3,877	43,595	0	47,472
35	2056.57	141,993	6,217	148,210	(43,691)	(57,922)	(38,661)	(262)	(140,536)	(1,690)	5,984	(1,767)	0	0	0	4,216	47,472	0	51,688
36	2057.58	144,655	6,317	150,972	(44,459)	(59,402)	(39,530)	(270)	(143,661)	(1,416)	5,894	(1,280)	0	0	0	4,614	51,688	0	56,302
37	2058.59	147,368	6,418	153,786	(45,241)	(60,920)	(40,420)	(277)	(146,858)	(1,114)	5,813	(953)	0	0	(0)	4,860	56,302	0	61,162
38	2059.60	150,133	6,520	156,653	(46,036)	(62,477)	(41,330)	(285)	(150,128)	(811)	5,714	(5,557)	0	0	0	157	61,162	0	61,319
39	2060.61	152,950	6,625	159,575	(46,845)	(64,073)	(42,262)	(293)	(153,473)	(319)	5,783	0	0	0	0	5,783	61,319	0	67,102
40	2061.62	153,940	6,731	160,671	(47,669)	(65,709)	(43,198)	(301)	(156,877)	(117)	3,677	0	0	0	0	3,677	67,102	0	70,779
		4,425,199	200,754	4,625,953	(1,384,177)	(1,672,345)	(1,184,744)	(7,394)	(4,248,661)	(222,652)		(80,939)							

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Appendix 22

Effect of charge increase on area bands

Weekly Charge	Property Band by Floor area	No of properties	2021/22 Weekly charge (£)	2022/23 Weekly Charge (£)	Increase £
	Band A <40 m^2	1,705	9.08	10.58	**1.50**
	Band B <50 m^2	2,160	11.33	13.20	**1.87**
	Band C <60 m^2	213	13.61	15.86	**2.25**
	Band D <70 m^2	570	15.85	18.47	**2.62**
	Band E <80 m^2	570	18.13	21.13	**3.00**
	Band F <90 m^2	201	20.41	23.78	**3.37**
	Band G <100 m^2	8	22.66	26.40	**3.74**
	Band H <110 m^2	13	24.92	29.04	**4.12**
	Band J <20 m^2	3	3.41	3.97	**0.56**
	Weighted average		**12.28**	**14.31**	**2.03**

Annual Charge	Property Band by Floor area	No of properties	2021/22 Annual Charge (£)	2022/23 Annual Charge (£)	Increase £
	Band A <40 m^2	1,705	472.16	550.16	**78.00**
	Band B <50 m^2	2,160	589.16	686.40	**97.24**
	Band C <60 m^2	213	707.72	824.72	**117.00**
	Band D <70 m^2	570	824.20	960.44	**136.24**
	Band E <80 m^2	570	942.76	1,098.76	**156.00**
	Band F <90 m^2	201	1,061.32	1,236.56	**175.24**
	Band G <100 m^2	8	1,178.32	1,372.80	**194.48**
	Band H <110 m^2	13	1,295.84	1,510.08	**214.24**
	Band J <20 m^2	3	177.32	206.44	**29.12**
	Weighted average		**589.44**	**686.81**	**97.37**

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Major Repairs and Improvements Financing
(expressed in money terms)

		Expenditure					Financing						
Year	Year	Major Works & Imps	New Build & Development Costs	New Build Major Repairs	Other	Total Expenditure	Borrowing	RTB 141 Receipts	Other RTB Receipts	Other	MRR	RCCO	Total Financing
		£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
1	2022.23	43,228	17,737	0	490	61,455	17,494	7,095	2,466	8,096	23,757	2,547	61,455
2	2023.24	48,144	28,635	0	0	76,779	45,394	3,268	2,268	0	24,707	1,143	76,779
3	2024.25	36,627	18,270	0	0	54,896	23,993	2,789	2,023	0	25,364	728	54,896
4	2025.26	30,890	1,985	0	0	32,875	2,162	794	1,751	1,447	26,008	713	32,874
5	2026.27	29,538	2,051	0	0	31,589	0	820	1,796	1,554	26,862	556	31,589
6	2027.28	30,148	2,118	0	0	32,266	0	847	1,842	1,665	27,756	155	32,266
7	2028.29	30,770	2,188	0	0	32,958	0	875	1,890	1,780	28,413	0	32,958
8	2029.30	31,404	2,261	0	0	33,665	0	904	1,939	1,898	28,924	0	33,665
9	2030.31	32,051	2,335	0	0	34,387	0	934	1,989	2,020	29,443	0	34,387
10	2031.32	31,515	2,412	0	0	33,927	0	965	2,040	2,147	28,775	0	33,927
11	2032.33	32,164	2,492	18	0	34,673	0	997	2,093	2,277	29,306	0	34,673
12	2033.34	32,826	2,574	36	0	35,435	0	1,030	2,148	2,412	29,846	0	35,435
13	2034.35	33,501	2,659	73	0	36,233	0	1,064	2,328	2,196	30,646	0	36,233
14	2035.36	34,189	2,747	481	0	37,417	0	1,099	2,388	0	33,930	0	37,417
15	2036.37	30,892	2,837	777	0	34,507	0	1,135	2,451	0	30,921	0	34,507
16	2037.38	31,527	2,931	842	0	35,300	0	1,172	2,515	0	31,613	0	35,300
17	2038.39	32,173	3,028	911	0	36,113	0	1,211	2,581	(0)	32,321	0	36,113
18	2039.40	32,833	3,128	984	0	36,945	0	1,251	2,649	0	33,045	0	36,945
19	2040.41	33,506	3,231	1,061	0	37,798	0	1,292	2,719	(0)	33,787	0	37,798
20	2041.42	31,358	3,337	1,141	0	35,836	0	1,335	2,790	(0)	31,711	0	35,836
21	2042.43	32,000	3,448	1,226	0	36,673	0	1,379	2,864	0	32,430	0	36,673
22	2043.44	32,655	3,561	1,314	0	37,530	0	1,425	2,939	(0)	33,166	0	37,530
23	2044.45	33,322	3,679	1,408	0	38,409	0	1,472	3,017	0	33,920	0	38,409
24	2045.46	34,003	3,800	1,506	0	39,309	0	1,520	3,097	0	34,692	0	39,309
25	2046.47	40,002	3,926	1,609	0	45,537	0	1,570	3,179	(0)	40,788	0	45,537
26	2047.48	40,819	4,055	1,717	0	46,591	0	1,622	3,263	0	41,706	0	46,591
27	2048.49	41,651	4,189	1,831	0	47,671	0	1,676	3,350	0	42,646	0	47,671
28	2049.50	42,500	4,327	1,950	0	48,778	0	1,731	3,439	0	43,608	0	48,778
29	2050.51	43,366	4,470	2,076	0	49,912	0	1,788	3,530	0	44,593	0	49,912
30	2051.52	44,249	4,618	2,207	0	51,073	0	1,847	3,625	(0)	45,602	0	51,073
31	2052.53	45,149	4,770	2,345	0	52,264	0	1,908	3,721	0	46,634	0	52,264
32	2053.54	46,067	4,927	2,489	0	53,483	0	1,971	3,821	0	47,692	0	53,483
33	2054.55	47,003	5,090	2,640	0	54,733	0	2,036	3,923	(0)	48,775	0	54,733
34	2055.56	47,957	5,258	2,799	0	56,014	0	2,103	4,028	0	49,884	0	56,014
35	2056.57	48,930	5,432	2,965	0	57,327	0	2,173	4,135	0	51,019	0	57,327
36	2057.58	49,923	5,611	3,140	0	58,673	0	2,244	4,246	0	52,182	0	58,673
37	2058.59	50,934	5,796	3,322	0	60,052	0	2,318	4,360	0	53,374	0	60,052
38	2059.60	51,966	5,987	3,513	0	61,466	0	2,395	4,477	(0)	54,594	0	61,466
39	2060.61	53,017	6,185	3,713	0	62,915	0	2,474	4,597	(0)	55,844	0	62,915
40	2061.62	54,089	6,344	3,872	0	64,305	0	2,537	4,721	(0)	57,047	0	64,305

Input Year Number up to which you require Summary Totals i.e. input 10 for a cumulative total from years 1 to 10

40		**1,548,884**	**204,429**	**53,967**	**490**	**1,807,770**	**89,042**	**69,067**	**118,996**	**27,492**	**1,497,331**	**5,842**	**1,807,770**

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STATUTORY POWER TO UNDERTAKE PROPOSALS IN THE REPORT

1. INTRODUCTION

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.

2. GENERAL POSITION

a. 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 businesslike 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.

b. There is a general requirement in administrative law that a local authority decision must be rational, authorised by law and must take account of all relevant considerations, whilst ignoring any irrelevant ones. It should also be noted that the concept of proportionality, given great emphasis in the Human Rights Act 1998, is also becoming a relevant factor for determining the reasonableness of any decision and should be borne in mind by Members.

c. An authority commits an illegal act if it acts beyond or in abuse of its statutory powers or in breach of its fiduciary duty. It will also act illegally if it fails to take relevant considerations into account or acts in outrageous defiance of reason.

3. OBLIGATION TO MAKE A COUNCIL TAX

a. The legal significance of the Annual Budget and setting a Council Tax derives from the Council's duty under the Local Government Finance Act 1992 (the 1992 Act) and Part 5 Chapter 1 of the Localism Act 2011to set a balanced budget and Part 5 Chapter 1 of the Localism Act 2011. This is achieved by calculating the aggregate of:

   i. the expenditure it estimates it will incur in the year in performing its functions in the year (including an allowance for contingencies),

ii. the payments it estimates it will make in the year in defraying expenditure already incurred and

iii. expenditure it will incur in funding costs before a transfer of funds is made from the Collection Fund and then deducting such sums as will be paid into the General Fund, i.e. income. Calculations made under this section must be made before 11 March in the preceding financial year.

b. In order to fulfil this duty, the Council must prepare detailed estimates of its expenditure for the coming year and of the resources that will be available to meet this expenditure. Account must be taken of any deficit brought forward from a previous year and the amount needed to cover contingencies. The resources include income from rents, fees and charges and any available balances. All of these issues must be addressed in the budget report. The estimation of the detailed resource and expenditure items is the main reason for the budget process. The budget must balance, i.e. proposed expenditure must be met from proposed income from all sources, with any shortfall being the precept on the Collection Fund.

c. Failure to make a lawful Council Tax on or before 11 March 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.

d. Section 151 of the Local Government Act 1972 places a general duty on local authorities to make arrangements for "the proper administration of their financial affairs'.

e. 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.

f. 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.

4. DEFICIT BUDGETING

a. A deficit budget, one which does not cover all anticipated expenditure with resources reasonably expected to be available, is unlawful. Any Council Tax which rests on such a budget will be invalid. Councils are constrained to make a Council Tax before all the separate elements, which will constitute available resources or anticipated expenditure, have been identified and quantified fully. Best estimates have to be employed.

b. Where these best estimates include sums for unallocated savings or unidentified expectations of income, extreme care must be taken to ensure that the estimates are reasonable and realistic and do not reflect an unlawful intention to incur a deficit. It might be appropriate at budget setting time to require regular monitoring throughout the financial year of such estimated savings or income. Prompt action to reduce spending must be taken, if at any stage it seems likely that a balance between income and expenditure will not be achieved.

5. BORROWING

The rules and regulations governing a local authority's ability to borrow money were altered significantly by the introduction of the Local Government and Housing Act 1989 and subsequent regulations. This has now been abolished and replaced by the self-regulating Prudential Code.

6. OTHER RELEVANT LEGISLATION

a. The Local Government Finance Act 1988 (the 1988 Act) created the (now repealed) Community Charge and the current National Non- Domestic Rating regime and deals with grants, funds, capital expenditure and the financial administration of a local authority.

b. Under Section 114 (2) and 114 (3) of the 1988 Act, 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.

c. Members have a duty to determine whether they agree with the Chief Financial Officer's statutory report issued under Section 26 Local Government Act 2003. If Members were to disagree, they would need to set out cogent reasons for so doing. Unless such reasons could be set forward, Members' action in disagreeing with the Chief Financial Officer's views on the basis of his/her professional judgement would be likely to be held unreasonable and constitute wilful misconduct. It should be noted that under the Members' Code of Conduct, Members are required to take account of any advice issued by Chief Financial Officer (and the Monitoring Officer) acting in their statutory capacities.

7. BEST VALUE: LOCAL GOVERNMENT ACT 1999

The Local Government Act 1999 (the 1999 Act) introduced a duty of Best Value, which came into force on 1st April 2000. Members need to be aware of and take account of the impact on the Council of this duty.

8. THE CONSTITUTIONAL POSITION: LOCAL GOVERNMENT ACT 2000 (THE 2000 ACT)

a. The 2000 Act has had a fundamental effect on the governance of the Council and in particular has resulted in a change to the working arrangements of Council, with the requirement for a Constitution setting out executive (Cabinet) and scrutiny and overview arrangements. The 2000 Act also provides a power for Councils to promote the economic, social and environmental well being of their areas and develop community strategies. In addition, the 2000 Act establishes an ethical framework.

b. 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.

c. In addition, the Constitution contains a range of further material relevant to the setting of the Council Tax and the Budget Setting meeting:

    i. Article 12 contains guidance on decision making and the law.

    ii. The Council Procedure Rules in Part 4 regulate the conduct of the Full Council meeting (although traditionally, some of the rules relating to the conduct of the debate are suspended to allow different arrangements during the budget debate).

    iii. The Members' Code of Conduct must be followed by Members.

    iv. The Officer/Member Protocol contains guidance both on pre-budget discussions, but also on how officers and Members should interact with specific guidance about budget preparation issues.

9. PERSONAL LIABILITY AND SURCHARGE

The 2000 Act abolished the local government surcharge provisions and replaced them with a new statutory offence of 'misuse of public office'. This new statutory offence covers two situations, namely unlawfully incurring expenditure or incurring expenditure as a result of wilful misconduct. It also covers the exercise of a public function in a manner that involves dishonesty or oppression or malice. The Courts (rather than the External Auditor) would impose penalties. The Council could sue for losses/deficiencies sustained.

10. LEGAL STATUS OF POLITICAL PROMISES AND DOCUMENTS

a. 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.

b. 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.

c. All decisions must be taken within the framework of the formal decision making process of the Authority. Members must take into account all relevant matters and disregard all irrelevant ones. Decisions taken at a political meeting, such as a political group meeting, have no status within this process. A Member, who votes in accordance with a group decision which has been reached, having regard to relevant factors and who has addressed their mind independently to those factors and to the decision itself, will be acting within the law.

d. The Courts have also advised on the balancing exercise to be undertaken by a Council when deciding whether to pursue a particular policy:

A local authority must exercise its statutory powers in the public interest and for the purpose of which those powers have been conferred. Political views, as to the weight to be attached to the various relevant considerations and as to what is appropriate in the public interest in the light of those considerations may properly influence the exercise of a statutory discretion. A decision will not be unlawful merely because some political advantage, such as electoral popularity, is expected to flow from it, so long as the decision is made for a legitimate purpose or purposes. Because at some stage in the evolution of a policy an improper political purpose has been espoused, does not mean that the policy ultimately adopted is necessarily unlawful. However, a political purpose extraneous to the statutory purpose can taint a decision with impropriety. Where there is more than one purpose:

a) The decision will generally be lawful provided that the permitted purpose is the true and dominant purpose behind the act. This is so even though some secondary or incidental advantage may be gained for some purpose, which is outside the authority's powers.

b) The decision will be invalid if there are two purposes one ultra vires and one intra vires and the ultra vires purpose is a (even if not the) major purpose of the decision. Accordingly a decision substantially influenced by a wish to alter the composition of the electorate would be unlawful.

c) Where there is some evidence justifying enquiry, the Court will consider whether an apparently lawful purpose e.g. home ownership is merely a colourable device to conceal an illegitimate purpose e.g. electoral advantage.

d) *Even if those voting for a particular policy at a Council meeting have perfectly proper reasons in mind, the policy can be tainted by the improper motives of others who have taken part in the formulation of that policy although not actually present to vote. As a matter of law it is possible for a corrupt principal to cause a result through an innocent agent.*

11. OTHER LEGAL IMPLICATIONS

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.

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