

DECISION-MAKER:	CABINET		
SUBJECT:	UPDATE ON BUDGET FORECAST FOR 2022/23 ONWARDS AND SAVINGS PLANS		
DATE OF DECISION:	20 DECEMBER 2021		
REPORT OF:	CABINET MEMBER FOR FINANCE & CAPITAL ASSETS		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY

Not Applicable.

EXECUTIVE SUMMARY

This report updates on the budget position for 2022/23 and beyond. It highlights the financial position of the 2022/23 budget and updates on actions undertaken and outlines a strategy to achieve a balanced budget for next year. It also sets out the financial uncertainty the council continues to face – due to the direct impact of COVID-19 and also the impact it has on the council's finances through COVID-19's economic effects. In recent years Government has linked a number of funding sources for local councils to the strength of the local economy. Council's funding is linked to business rate growth and also the council tax base is influenced by the numbers of people entitled to support with their council tax payment.

COVID-19 has brought significant financial challenges to all local councils, on top of the strained public finances following austerity measures applied since 2010.

The report also highlights that we are still awaiting the Provisional Local Government Finance Settlement for 2022/23, which will provide figures for the funding to come from Government from 1 April 2022.

The proposals within this report do not achieve a balanced budget for 2022/23, and as per paragraph 62 a shortfall is currently forecast of around £9.01M as it stands.

The challenge of balancing the council budget is estimated to increase significantly in subsequent years, with a forecast budget gap of £25.27M (2023/24), £24.82M (2024/25) and £25.76M (2025/26).

In meeting this remaining £9.01M shortfall in 2022/23, even if other matters remain constant, then the council will have the following options available:

- The preliminary grant settlement which based on the spending review should be favourable and is also likely to include an option for an increase of 1 per cent on the council tax for Adults Social Care (ASC)

- Further savings/efficiency measures
- Use of reserves. Nearly £7M of reserves are available from the 2020/21 outturn surplus. This was not budgeted for in the MTFR Reserve in February 2021.
- Reduction in centrally held funds such as contingency

RECOMMENDATIONS:

It is recommended that Cabinet:

General Fund

	i)	Notes the update within this report and the assumptions it has been necessary to make at this stage.
	ii)	Notes the new commitments which have been included in the forecast as noted in paragraphs 9 and 10 and appendix 1.
	iii)	Notes the key headlines from the Autumn Budget and Spending Review 2021 announcement set out in appendix 2.
	iv)	Notes the budget pressures which have been included in the forecast which are set out in paragraphs 55 and 56 and appendix 3.
	v)	Notes the initial savings proposals set out in paragraphs 58 to 60 and appendix 4.
	vi)	Notes that even with the proposals contained in this report, a budget shortfall of £9.01M is still currently forecast for 2022/23 and notes the options available to produce a balanced budget.
	vii)	Is asked to determine whether, in line with the current policy of no increase in council tax, that this will apply to the Adult Social Care precept.

Housing Revenue Account

	viii)	Notes the update and assumptions within this report set out in paragraphs 69 to 95.
	ix)	Notes the proposal to freeze rents at the current level as set out in paragraph 76.
	x)	Notes the proposals to freeze service charges set out in paragraph 79.
	xi)	Notes the proposal to increase heating charges by 16.52 per cent as set out in paragraph 83.

REASONS FOR REPORT RECOMMENDATIONS

1.	This report is submitted for consideration as part of good practice in establishing draft budget proposals in advance of the financial year.
2.	The production of a financial forecast and an outline timetable are a requirement of the Council's Budget and Policy Framework Procedure Rules.
3.	In addition, it is standard practice for Overview and Scrutiny Management Committee to consider the proposals and provide feedback to the Cabinet. Recommendations in this report have therefore been put forward to allow this process to formally begin.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

4. The proposals presented in this report represent the Cabinet’s initial proposals for the 2022/23 budget and medium term, which are being published for consultation. There are a number of variables and alternative options that could be implemented as part of the budget. The budget will be set by Full Council in February 2022.

DETAIL (Including consultation carried out)

Background

5. Full Council approved a 4-year Medium Term Financial Forecast (MTFF) in February 2021, the objective of which is to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the council’s priorities.

6. The 6 key aims 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 a 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;
- 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.

7. Table 1 below shows the MTFF position as reported in February 2021. At that time no public expenditure plans or funding allocations were available beyond 2021/22, and there was great uncertainty about the impact of the COVID-19 pandemic, therefore the future years were only indicative.

8. Table 1 – Forecast Budget Shortfall 2021/22 to 2024/25

	2021/22	2022/23	2023/24	2024/25
	£M	£M	£M	£M
Net Expenditure	173.85	212.36	220.22	225.08
Funding	(173.85)	(189.84)	(192.91)	(198.51)
Forecast Budget Shortfall	0.00	22.52	27.31	26.57

9. Since the MTFF was agreed in February 2021, Full Council has approved new commitments relating to new priorities of the incoming Administration. Table 2 below shows the revised forecast budget shortfall for future years taking into account these new commitments, with details provided in Appendix 1.

10.	<p>Table 2 – Revised Forecast Budget Shortfall 2022/23 to 2025/26</p> <table border="1"> <thead> <tr> <th></th> <th>2022/23 £M</th> <th>2023/24 £M</th> <th>2024/25 £M</th> <th>2025/26 £M</th> </tr> </thead> <tbody> <tr> <td>Forecast budget shortfall as at February 2021</td> <td>22.52</td> <td>27.31</td> <td>26.57</td> <td>26.57</td> </tr> <tr> <td>New commitments</td> <td>4.93</td> <td>4.53</td> <td>4.44</td> <td>4.50</td> </tr> <tr> <td>Revised Forecast Budget Shortfall July 2021</td> <td>27.45</td> <td>31.84</td> <td>31.01</td> <td>31.08</td> </tr> </tbody> </table>		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	Revised Forecast Budget Shortfall July 2021	27.45	31.84	31.01	31.08
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11.	<p>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.</p>																				
	<p><u>National Public Expenditure Plans</u></p>																				
	<p><u>Social Care Reform</u></p>																				
12.	<p>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”.</p>																				
13.	<p>The proposals for social care include:</p> <ul style="list-style-type: none"> • 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. Individuals will make no payments for their care if their assets are less than £20,000, means tested support will apply to assets between £20,000 and £100,000. • Self-funders will be able to ask their local authority to arrange their care for them so that they can find better value care. <p>The changes will be introduced from October 2023 and implemented using the Care Act 2014.</p>																				
14.	<p>These social care reforms, along with additional spending for the NHS, will be funded by a 1.25 per cent increase in employee and employer national insurance contributions (a new “Health and Social Care Levy”) and a 1.25 per cent increase in the dividend tax rate. Together these tax increases are expected to raise £12Bn annually. Of this, £5.4Bn will be allocated to fund the costs of social care reform over the next 3 years. The Spending Review provided some limited further detail on how the funding will be allocated (see paragraph 19 below).</p>																				
15.	<p>The Government has committed to work with key stakeholders, including local government, to develop and publish a white paper for reforming adult social care. It will also work with key stakeholders to produce a national plan for supporting and enabling integration between health and social care.</p>																				
16.	<p>Local authorities will incur additional costs from the introduction of the social care “cap” and changes to capital limits, having to fund a greater share of the care costs that are currently paid for by self-funders. Costs will also increase from the “market equalisation” of care costs. It is not yet known whether the funding announced by Government will be sufficient to meet these costs. For</p>																				

	<p>the purposes of financial planning we have assumed the impact is neutral until more detailed information is available.</p> <p>With regard other cost pressures being faced within adult social care, the white paper indicates that local authorities will have to fund their “demographic and unit cost pressures” from a combination of “council tax, social care precept and long-term efficiencies”.</p>
	<p><u>Autumn Budget and Spending Review 2021</u></p>
17.	<p>On 27 October 2021 the Chancellor of the Exchequer announced the Autumn Budget and Spending Review 2021 (‘the Spending Review’). This includes a 3-year settlement for government departmental budgets for the period 2022/23 to 2024/25 and is the first multi-year spending review since 2015. Key headlines from the announcement are summarised in Appendix 2.</p>
18.	<p>Local government will be given £4.8Bn in new grant funding over the next 3 years, £1.6Bn in each year. It is unclear at this stage what the new grant funding is intended to cover. Confirmation has been received that it will need to meet local authorities’ costs of the 1.25 per cent Health and Social Care Levy. No further clarification on what the additional funding must cover is expected until the Provisional Local Government Finance Settlement in December 2021, when individual local authority allocations will be announced.</p>
19.	<p>Of the £5.4Bn previously announced for social care reform, £3.6Bn will be made available for the care cap and changes to capital limits (£0.2Bn in 2022/23, £1.4Bn in 2023/24 and £2.0Bn in 2024/25). £1.7Bn will be allocated over 3 years “to improve the wider social care system”, of which £500M is for workforce reform.</p>
20.	<p>No mention was made in the Spending Review of the local government fair funding review or any changes to the business rates retention system. The Secretary of State for Levelling Up, Communities and Housing has since said that plans to increase the share of business rates retained by local government are being reconsidered. For the purposes of financial planning, we have continued to assume that the council is no better or worse off in funding terms from any policy changes resulting from reviews to the local government finance system until more detail is provided.</p> <p>The Local Government Association (LGA) welcomed the additional funding noting that new government grant funding has been provided for councils over the next three years to support vital local services, and that local investment is consistent with the levelling-up agenda. However, the LGA also noted the potential rise in local government core spending power over the next three years will be dependent on councils increasing council tax by three per cent per annum and remained concerned that money allocated to social care from the Health and Care Levy will be insufficient.</p>
	<p><u>2021/22 General Fund Forecast Outturn</u></p>
21.	<p>Table 3 shows the forecast 2021/22 deficit for the General Revenue Fund is £8.69M as at the end of October 2021.</p>

22.	<p><u>Table 3 General Revenue Fund Forecast 2021/22</u></p> <table border="1"> <thead> <tr> <th></th> <th>BAU Forecast Variance Oct 2021 £M</th> <th>COVID Forecast Variance Oct 2021 £M</th> <th>Total Forecast Variance Oct 2021 £M</th> </tr> </thead> <tbody> <tr> <td>Portfolios Net Expenditure</td> <td>8.14 A</td> <td>1.94 A</td> <td>10.08 A</td> </tr> <tr> <td>Non-Portfolio Net Expenditure</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td>Net Revenue Expenditure</td> <td>8.14 A</td> <td>1.94 A</td> <td>10.08 A</td> </tr> <tr> <td>Financing</td> <td>0.00</td> <td>1.39 F</td> <td>1.39 F</td> </tr> <tr> <td>(Surplus)/Deficit</td> <td>8.14 A</td> <td>0.55 A</td> <td>8.69 A</td> </tr> <tr> <td>To be met from the Social Care Demand Reserve</td> <td>6.75 F</td> <td></td> <td>6.75 F</td> </tr> <tr> <td>To be met from centrally held budgets</td> <td>1.39 F</td> <td>0.55 F</td> <td>1.94 F</td> </tr> <tr> <td>(Surplus)/Deficit after applying corporate funds</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> </tr> </tbody> </table> <p style="text-align: center;">NB Numbers are rounded</p>		BAU Forecast Variance Oct 2021 £M	COVID Forecast Variance Oct 2021 £M	Total Forecast Variance Oct 2021 £M	Portfolios Net Expenditure	8.14 A	1.94 A	10.08 A	Non-Portfolio Net Expenditure	0.00	0.00	0.00	Net Revenue Expenditure	8.14 A	1.94 A	10.08 A	Financing	0.00	1.39 F	1.39 F	(Surplus)/Deficit	8.14 A	0.55 A	8.69 A	To be met from the Social Care Demand Reserve	6.75 F		6.75 F	To be met from centrally held budgets	1.39 F	0.55 F	1.94 F	(Surplus)/Deficit after applying corporate funds	0.00	0.00	0.00
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23.	<p>The most significant adverse variance continues to be for the Children’s Social Care portfolio, which is forecast to have a ‘business as usual’ deficit of £6.62M. This deficit relates mainly to Looked After Children Provision, with increased numbers and costs of placements and cases and additional staffing costs.</p>																																				
24.	<p>An action plan “Destination 2022” has been developed to address the operational and financial pressures being experienced within Children’s Social Care. At its meeting on 15 November 2021, Cabinet approved the use of corporate funds to meet the £1.3M costs of unfunded service critical posts in 2021/22, this is not yet factored into the deficit noted in paragraph 23. The ongoing cost of these posts together with further staffing changes and other measures in the Destination 2022 plan are included in the budget pressures outlined in this report. The financial benefits expected to be realised from these changes are included in the draft savings proposals set out in this report.</p>																																				
25.	<p>The remainder of the adverse variance is mostly attributable to the Health & Adult Social Care portfolio, which has a forecast ‘business as usual’ deficit of £1.90M. Approval is also being sought for funding to appoint additional staffing resources to address operational pressures in the service. The additional net cost in 2021/22 would be £1.18M. The ongoing costs are included in the budget pressures outlined in this report.</p>																																				
26.	<p>Taken together the forecast ‘business as usual’ deficit for social care in 2021/22 combined with the net cost of additional resources being requested by Health & Adult Social Care for the year is £9.70M. This will be met from the Social Care Demand Reserve (£7.93M) and centrally held budgets (£1.77M) in 2021/22.</p>																																				
27.	<p>One of the savings expected and included in the budget for 2021/22 was a £0.5M from refinancing the PFI on street lighting. Work is progressing on this saving, which is now expected to be exceeded. The £0.5M already factored</p>																																				

	<p>into this year's budget is planned to be used to help balance the current year's budget. The total net saving is currently estimated at £1.2M, but is uncertain.</p> <p>The draft budget included in this report assumes the additional saving of £0.7M, if realised, can and will be applied in 2022/23 to help balance next year's budget. Further work is needed to confirm this saving but it is anticipated this will be included in the February budget report to Council. Given the budget pressures faced in 2022/23, if possible, the appropriate option is to apply the full extent of the extra gain of £0.7M above that already budgeted for as a saving to help address the budget shortfall identified in 2022/23.</p>
	<u>2022/23 Budget and MTFF</u>
28.	<p>Although the immediate focus is to set a balanced budget for 2022/23, it is important to not lose sight of the financial position for future years, so that decisions made in setting next year's budget and the capital programme are not detrimental to ensuring a sustainable budget over the medium term. For this reason a further year has been added to the medium term financial forecast so that it covers the 4-year period 2022/23 to 2025/26. This is beyond the period of the recently announced Spending Review so the final year is only indicative.</p>
29.	<p>The February 2021 MTFF took into account the forecast impact of COVID-19 on the council's income and expenditure, making assumptions about the scale and duration of the impact at a time when restrictions were still on-going. Those assumptions have been reviewed and updated in light of experience over this last year and are reflected in the updates that follow. However, there is still much uncertainty about the longer-term consequences of the pandemic on the economy, service demand and public behaviour more generally.</p>
	<u>Funding Update</u>
	<u>2021/22 Collection Fund Outturn Forecast</u>
30.	<p>As reported to Council in the Revenue and Capital Outturn 2020/21 in July 2021, there was a net favourable variance of £2.03M on the Collection Fund/compensation grants outturn position compared with the estimates used for setting the budget in February 2021. The two main factors contributing to the improved position were a lower increase in Local Council Tax Support working age claimants than forecast and a reduction in the provision for business rates refunds following the Government's announcement that appeals relating to COVID-19 restrictions would be ruled out.</p>
31.	<p>The factors that led to an improved 2020/21 Collection Fund outturn have continued to be seen in 2021/22, together with a lower level of business rates empty property relief than had been allowed for. Taken together the council's share of this in-year improvement is expected to be £3.21M.</p>
32.	<p>Under Collection Fund accounting rules, the council's share of any estimated surplus or deficit to be carried forward on the Collection Fund for the current year is to be taken into account in setting the budget for the following year. The combined improvement to be taken into account in setting the 2022/23 budget is £5.24M. The Collection Fund outturn is influenced by economic factors and hence may change when a final estimate is made in January 2022.</p>
	<u>Council Tax</u>
33.	<p>The February 2021 MTFF assumed a 1.99 per cent increase in the core band D charge for 2022/23.</p>

	<p>The new Administration's priorities approved in July 2021 included freezing of the council tax charge for 2022/23. Foregoing a rise in core council tax reduces income by £2.1M per annum compared to the February 2021 MTFF and is included within the new commitments shown in Table 2.</p>																						
34.	<p>The Government announced in the Spending Review that local authorities are likely to be able to increase the core council tax charge by up to 2 per cent a year without seeking a referendum. Details will be confirmed in the Provisional Finance Settlement in December 2021.</p> <p>Each 1 per cent increase in the council tax charge generates around £1.1M additional income. For planning purposes only, the MTFF includes the working assumption that the council tax charge will increase by 1.99 per cent each year from 2023/24.</p>																						
35.	<p>The February 2021 MTFF assumed that a part of the economic legacy of the pandemic would be that the cost of Local Council Tax Support working age claimants would be 33 per cent higher in 2022/23 than pre-COVID levels, slowly reducing over the medium term.</p> <p>The current working assumption is that the cost of these claims will be 19 per cent higher than pre-COVID levels in 2022/23, reducing to more normal levels over the period of the MTFF. The increase in council tax income in 2022/23 compared with the February MTFF is expected to be £1.06M.</p>																						
36.	<p>The council tax base is the estimated number of chargeable properties (net of discounts, exemptions and disabled relief) in each property band less the reduction as a result of the Local Council Tax Support (LCTS) Scheme. A factor is applied to each band to calculate the number of Band D equivalents. The February 2021 MTFF assumed no growth in the council tax base for 2022/23 because of the uncertainty at that time of the impact of the pandemic on residential developments. The current working assumption is that growth in the council tax base will generate £0.64M additional council tax income in 2022/23. Chart 1 below shows the past and forecast growth in the council tax base (including Local Council Tax Support).</p>																						
37.	<p>Chart 1 Net Council Tax Base Forecast*</p> <table border="1"> <caption>Council Tax Base Data</caption> <thead> <tr> <th>Fiscal Year</th> <th>Band D Equivalents</th> </tr> </thead> <tbody> <tr><td>2016/17</td><td>60,500</td></tr> <tr><td>2017/18</td><td>62,800</td></tr> <tr><td>2018/19</td><td>64,300</td></tr> <tr><td>2019/20</td><td>64,800</td></tr> <tr><td>2020/21</td><td>65,300</td></tr> <tr><td>2021/22</td><td>64,300</td></tr> <tr><td>2022/23</td><td>66,000</td></tr> <tr><td>2023/24</td><td>66,300</td></tr> <tr><td>2024/25</td><td>66,800</td></tr> <tr><td>2025/26</td><td>67,500</td></tr> </tbody> </table> <p>*net of local council tax support claimants</p>	Fiscal Year	Band D Equivalents	2016/17	60,500	2017/18	62,800	2018/19	64,300	2019/20	64,800	2020/21	65,300	2021/22	64,300	2022/23	66,000	2023/24	66,300	2024/25	66,800	2025/26	67,500
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38.	The budgeted collection rate for council tax in the February 2021 MTFF was 97.4 per cent. This is being increased to 98.5 per cent from 2022/23 to reflect both past experience at debt collection and a planned increase in debt collection activity, with £1.21M additional income expected in 2022/23 as a result compared with the February 2021 MTFF.
	<u>Adult Social Care Precept</u>
39.	<p>The adult social care precept is a charge on local taxpayers specifically to fund expenditure on adult social care that was first introduced by the Government in 2016/17 in recognition of the substantial cost pressures being faced by all local authorities with social care responsibilities. The February 2021 MTFF did not include an increase in the adult social precept for 2022/23 or future years, pending confirmation of government policy. As noted in paragraph 16 above, the government is expecting local authorities to use the social care precept to help meet social care cost pressures and announced in the Spending Review that local authorities with social responsibilities are likely to be able to increase the precept by 1 per cent a year without seeking a referendum.</p> <p>At the time of writing the Provisional Local Government Finance Settlement has not yet been announced, but is expected to confirm this ability to raise a 1 per cent precept via council tax specifically for Adult Social Care budget pressures, which could provide up to £1.1M in funding to Southampton City Council. Cabinet is asked to determine whether, in line with the current policy of no increase in council tax, that this will apply to the Adult Social Care Precept for 2022/23.</p>
	<u>Business Rates</u>
40.	Under the Business Rates Retention (BRR) Scheme the council retains 49 per cent of the business rates collected locally, with 1 per cent going to Hampshire and Isle of Wight Fire & Rescue Authority and 50 per cent to Central Government. Although an increase in the share of business rates retained by local government has been previously proposed by the Government, the Spending Review was silent on changes the BRR Scheme, so no increase in the retained share is assumed within the MTFF. The council also receives Government grant in lieu of business rates income where the Government has introduced new reliefs or capped the rates multiplier, so the two need to be considered together in assessing the impact of any changes.
41.	Business rates payable (before any reliefs are applied) is a product of the rateable value of a property and the business rates multiplier. The multiplier is normally uprated each year with reference to the Consumer Price Index 12-month rate for September of the preceding year. The February 2021 MTFF assumed the multiplier would increase by 2.0 per cent. The actual September 2021 CPI 12-month rate was 3.1 per cent. In the Spending Review the Government announced that the business rates multiplier would be frozen for another year, however local authorities would be fully compensated for this through grant funding. The Government has previously also compensated authorities for the difference between using CPI to uprate the multiplier rather than the Retail Price Index and it is assumed that this will continue. RPI for September 2021 was 4.9 per cent. £1.81M is expected in additional business rates income in 2022/23 due to these higher inflation rates compared with the February 2021 MTFF.

42.	The February 2021 MTFF allowed for empty property relief in 2022/23 to be 4.5 per cent, gradually reducing over the medium term to 3.5 per cent. The current working assumption is that this will be 3.5 per cent in 2022/23, reducing to 3.0 per cent thereafter. Taken together with other small changes to gross rates/reliefs, the increase in business rates income in 2022/23 compared with the February 2021 MTFF is forecast to be £0.60M.
	<u>Government Grants</u>
43.	The MTFF agreed in February 2021 assumed that Revenue Support Grant, Business Rates Top-Up Grant, Social Care Grant, Improved Better Care Fund Grant (within the Adult Social Care budget) and new Lower Tier Services Grant would all continue over the medium term at the same level as for 2021/22. A Government announcement on the future of the New Homes Bonus (NHB) is expected, but in the meantime one final legacy payment for NHB is also expected in 2022/23 and reflected in the draft budget.
44.	The February 2021 MTFF did not assume any on-going additional funding for COVID-19 pressures, and none has been announced by Government in its Spending Review.
45.	It is not yet known how the additional grant funding announced in the Spending Review will be allocated, whether via the settlement funding assessment (and therefore be reflected in Revenue Support Grant), specific ring-fenced or un-ringfenced grants or a combination of all three. It is also not known whether any existing grants will be subsumed within the revised allocations. For these reasons it is not possible to provide even an indicative allocation for the council at this stage. Details are expected in the Finance Settlement later in December.
46.	The Government has confirmed that the ring-fenced Public Health Grant will continue and be maintained in real terms over the period of the Spending Review.
47.	The council is receiving £2.82M of un-ringfenced Local Council Tax Support Grant in 2021/22. No proposals on how to apply this funding were included in the budget report in February 2021, given the economic uncertainty at that time. It is proposed that this grant is carried forward and used in 2022/23 as a one-off measure to help offset the loss in income from freezing the council's element of the council tax charge.
48.	The changes to funding forecasts are summarised in table 4 below. As can be seen, much of the benefit of the funding changes described above are limited to 2022/23, with a reduction of £6.56M in the assumed funding between 2022/23 and 2023/24. Whilst 2022/23 has significant benefit from the revision to the funding assumed in future (a £13.3M improvement), the much reduced benefit in future years and the 'step down' of the estimated funding by £6.6M in 2023/24 will present challenges when looking to balance the budget in future years.

49.	<p>Table 4 – Changes to funding forecasts</p> <table border="1"> <thead> <tr> <th></th> <th>2022/23 £M</th> <th>2023/24 £M</th> <th>2024/25 £M</th> <th>2025/26* £M</th> </tr> </thead> <tbody> <tr> <td>Collection Fund Outturn</td> <td>(5.24)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Council Tax</td> <td>(2.91)</td> <td>(3.20)</td> <td>(3.19)</td> <td>(6.70)</td> </tr> <tr> <td>Business Rates</td> <td>(2.41)</td> <td>(3.61)</td> <td>(3.60)</td> <td>(4.88)</td> </tr> <tr> <td>LCTS Grant Carry Forward</td> <td>(2.82)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total Funding Changes</td> <td>(13.38)</td> <td>(6.82)</td> <td>(6.79)</td> <td>(11.58)</td> </tr> <tr> <td>Year-on-year change</td> <td></td> <td>6.56</td> <td>0.03</td> <td>(4.79)</td> </tr> </tbody> </table> <p>*Includes effect of adding an extra year's increase to the council tax charge and business rates multiplier</p>		2022/23 £M	2023/24 £M	2024/25 £M	2025/26* £M	Collection Fund Outturn	(5.24)				Council Tax	(2.91)	(3.20)	(3.19)	(6.70)	Business Rates	(2.41)	(3.61)	(3.60)	(4.88)	LCTS Grant Carry Forward	(2.82)				Total Funding Changes	(13.38)	(6.82)	(6.79)	(11.58)	Year-on-year change		6.56	0.03	(4.79)
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50.	<p>The balance on General Fund earmarked revenue reserves (excluding schools' balances) at the end of 2020/21 was £130.38M. This included revenue grants 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 £60.72M. Within this, the balance on the Social Care Demand Risk Reserve is forecast to be £1.91M at the end of 2021/22, following application of £7.93M to meet social care pressures during the current year. A contribution of £2.0M to the reserve in 2022/23 will be used to meet in part the £3.68M net pressures for Children's Social Care in that year, leaving a balance on the reserve of £1.91M available to meet potential increases to Adult Social Care contract costs. The balance on the Medium Term Financial Risk Reserve is forecast to be £43.36M at the end of 2021/22, with further planned net calls of £2.43M in 2022/23, leaving £40.93M uncommitted. It is proposed that a further £3.41M is used in 2022/23 to help balance the budget, which includes £1.68M for the Children's Social Care net pressures noted above. This would leave an unallocated balance on the MTFR Reserve of £37.52M.</p>																																			
51.	<p>At the end of 2020/21 general balances stood at £10.07M and are expected to be maintained at this level in 2021/22 to provide for any unknown risks.</p>																																			
<u>Pay Awards and Inflation</u>																																				
52.	<p>The MTFF agreed in February 2021 assumed pay increases of 0.5 per cent in 2021/22, 1 per cent in 2022/23 and 2023/24 and 2 per cent thereafter. The local government employers' pay offer for 2021/22 of 1.75 per cent (2.75 per cent for the lowest paid workers) has been rejected by the unions. It is therefore not known at this stage what the ongoing cost of this year's pay award will be. A 1 per cent increase in the pay award costs around £1.1M.</p> <p>Higher inflation rates, as outlined below, the Government's lifting of the public sector pay freeze and higher earnings growth more widely, are likely to create pressure on pay rises and the assumptions in the MTFF for future pay awards will need to be reviewed. This is likely to increase predicted budget shortfalls. Actual pay rises will be fixed under national negotiations which the council will be obliged to pay.</p>																																			
53.	<p>Inflation (as measured by the Consumer Price Index 12-month rate) is currently running at 4.2 per cent and is forecast to be 4 per cent in 2022 before falling back down to the target rate of 2 per cent by 2025. These rates have been used in updating the estimates for contract inflation over the medium term.</p>																																			

54.	Based on current assumptions the potential calls on the centrally held inflation provision can be accommodated within the existing budget in 2022/23. However, the budget will need to be topped up from 2023/24 onwards to meet the expected demands and if the current inflation rate continues to impact on services purchased by the council and pressure for higher levels of annual pay award for staff continues, the risk is it will add to the predicted budget shortfall.																									
	<u>Budget Pressures</u>																									
55.	<p>Children’s Services and Adult Social Care are experiencing challenges that are being felt by councils nationwide and contribute to the broader context of the financial risks being managed.</p> <p>Table 5 below summarises the budget pressures that are anticipated in 2022/23 and future years, which are mainly due to demand-led costs within social care and the additional resources required to deliver the Destination 2022 plan within Children’s Social Care and the additional staffing resources requested in Health & Adult Social Care.</p>																									
56.	<p><u>Table 5 – Budget Pressures</u></p> <table border="1"> <thead> <tr> <th></th> <th>2022/23 £M</th> <th>2023/24 £M</th> <th>2024/25 £M</th> <th>2025/26 £M</th> </tr> </thead> <tbody> <tr> <td>Additional costs</td> <td>9.41</td> <td>10.58</td> <td>11.41</td> <td>12.14</td> </tr> <tr> <td>Loss of income</td> <td>1.02</td> <td>1.13</td> <td>1.13</td> <td>1.13</td> </tr> <tr> <td>Total Pressures</td> <td>10.44</td> <td>11.70</td> <td>12.54</td> <td>13.27</td> </tr> </tbody> </table> <p>NB Numbers are rounded</p>		2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	Additional costs	9.41	10.58	11.41	12.14	Loss of income	1.02	1.13	1.13	1.13	Total Pressures	10.44	11.70	12.54	13.27					
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57.	Further detail on the budget pressures is provided in Appendix 3.																									
	<u>Draft Savings Proposals</u>																									
58.	<p>The emphasis on savings continues to be on driving through efficiencies and cost reductions with a view to protecting front line services and council priorities.</p> <p>A series of sessions have been held with individual Executive Directors, the Executive Management Board, the Council Leader, Cabinet member for Finance and Capital Assets and relevant Cabinet portfolio holders to identify savings proposals to address the budget shortfall. The savings proposals identified through these sessions and subsequent work are summarised in Table 6 below, with details in Appendix 4.</p>																									
59.	<p><u>Table 6 – Draft Savings Proposals</u></p> <table border="1"> <thead> <tr> <th></th> <th>2022/23 £M</th> <th>2023/24 £M</th> <th>2024/25 £M</th> <th>2025/26 £M</th> </tr> </thead> <tbody> <tr> <td>Efficiency Savings</td> <td>(7.12)</td> <td>(12.49)</td> <td>(13.26)</td> <td>(13.42)</td> </tr> <tr> <td>Income Generation</td> <td>(1.48)</td> <td>(1.16)</td> <td>(0.97)</td> <td>(0.97)</td> </tr> <tr> <td>Other</td> <td>(1.50)</td> <td>(0.31)</td> <td>(0.23)</td> <td>(0.23)</td> </tr> <tr> <td>Total Savings Proposals</td> <td>(10.10)</td> <td>(13.96)</td> <td>(14.46)</td> <td>(14.62)</td> </tr> </tbody> </table> <p>NB Numbers are rounded</p>		2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	Efficiency Savings	(7.12)	(12.49)	(13.26)	(13.42)	Income Generation	(1.48)	(1.16)	(0.97)	(0.97)	Other	(1.50)	(0.31)	(0.23)	(0.23)	Total Savings Proposals	(10.10)	(13.96)	(14.46)	(14.62)
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60.	The proposals have been put forward on the basis of minimising the impact on front line services. The intention not to increase the core council tax for 2022/23 makes identifying and delivery of savings even more important. Work will																									

	<p>continue on the savings measures included in this report to ensure that plans are in place to achieve and deliver the savings to both the time and scale needed, ahead of inclusion in the budget report at February Council as a robust set of proposals.</p> <p>It should be noted that one of the proposed savings, relating to St Mary's Leisure Centre, is currently subject to a full consultation process and no decision has yet been taken. Realising the saving will be subject to that consultation outcome 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.</p>																																								
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61.	Table 7 below sets out the updated forecast budget shortfall over the period of the medium term financial forecast, taking into account funding changes, planned use of reserves, inflation, budget pressures and draft savings proposals.																																								
62.	<p>Table 7 – Updated Forecast Budget Shortfall</p> <table border="1"> <thead> <tr> <th></th> <th>2022/23 £M</th> <th>2023/24 £M</th> <th>2024/25 £M</th> <th>2025/26 £M</th> </tr> </thead> <tbody> <tr> <td>Revised Forecast Budget Shortfall July 2021</td> <td>27.45</td> <td>31.84</td> <td>31.01</td> <td>31.08</td> </tr> <tr> <td>Council Tax and Business Rates</td> <td>(13.38)</td> <td>(6.82)</td> <td>(6.79)</td> <td>(11.58)</td> </tr> <tr> <td>Use of Reserves</td> <td>(5.41)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Inflation</td> <td></td> <td>2.51</td> <td>2.52</td> <td>7.62</td> </tr> <tr> <td>Budget Pressures</td> <td>10.44</td> <td>11.70</td> <td>12.54</td> <td>13.27</td> </tr> <tr> <td>Draft Savings Proposals</td> <td>(10.10)</td> <td>(13.96)</td> <td>(14.46)</td> <td>(14.62)</td> </tr> <tr> <td>Updated Forecast Budget Shortfall December 2021</td> <td>9.01</td> <td>25.27</td> <td>24.82</td> <td>25.76</td> </tr> </tbody> </table> <p style="text-align: center;">NB Numbers are rounded</p>		2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	Revised Forecast Budget Shortfall July 2021	27.45	31.84	31.01	31.08	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 December 2021	9.01	25.27	24.82	25.76
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63.	Table 7 indicates a remaining budget shortfall of £9.01M for 2022/23, rising to £25.27M in 2023/24, with a broadly similar estimated shortfall in the following two years. All authorities are required by statute to set an annual budget that balances income and expenditure, hence work will need to continue to ensure proposals for a balanced budget for 2022/23 can be considered by Council at its meeting in February 2022, by eliminating the forecast £9.01M shortfall.																																								
64.	<p>Whilst cautious financial estimates have been made, there is also reason to think additional spending pressures for 2022/23 will emerge, adding to the shortfall currently estimated. For example, the capital programme is under review and additional schemes will need to be evaluated and considered, adding to the capital financing costs.</p> <p>Additional capital requirements will be included in the February budget report to council, but each £10M added to the capital programme if financed by borrowing will add £0.57M per annum to our revenue costs.</p>																																								
65.	We also await the announcement of the Provisional Local Government Finance Settlement in Mid December 2021, and details of the Council's funding from																																								

	Government for 2022/23, which will include the impact of the additional funds announced in the Spending Review.
66.	Failing the identification of any further proposals to mitigate pressures or additional savings, any remaining gap in 2022/23 would need to be met through use of reserves. As reserves are one-off in nature, this would only be a short-term measure. On-going reductions in net revenue expenditure, through income generation, efficiencies or other measures, will need to be identified in order to achieve a sustainable budget.
	<u>Capital Programme</u>
67.	Details on any changes to the capital programme will be presented in the February 2022 budget report. Since the last reported capital position Council agreed to invest on flood defence at its meeting on 17 November 2021, at a cost of £10.2M from the Community Infrastructure Levy (CIL).
68.	The costs of the 2021/22 capital programme have been reviewed, taking into account expected slippages and re-phasing and utilising all available capital receipts for funding. This has led to a re-estimation of the sum needed for capital financing in 2022/23, showing a reduction of £1.15M which has been included in Appendix 4 as one of the ways that contributes to balancing the budget next year.
	<u>Housing Revenue Account (HRA)</u>
69.	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.
	<u>2021/22 Forecast Outturn</u>
70.	The HRA year-end forecast position as at the end of October 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. This position was reported to Cabinet in November 2021. However, the predicted level of bad debt has not arisen resulting in this favourable position emerging.
	<u>HRA Medium Term Financial Position</u>
71.	This report sets out proposals for the HRA revenue budget for 2022/23 and the 40year HRA business plan, covering the period 2022/23 to 2061/62.
72.	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.
73.	The HRA Business Plan supports a number of council strategies, including the Medium Term Financial Strategy, to ensure plans are affordable and budgets

	<p>are aligned to the assumptions detailed in those strategies. The specific HRA Business Plan priorities are summarised below:</p> <ul style="list-style-type: none"> • 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. • A 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.
74.	<p>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, estimated unit income and expenditure, as well as the prevailing external economic factors of the time.</p>
	<p><u>Rent and Service Charge Increases</u></p>
75.	<p>Under current Government guidance the Council can increase rent by a maximum of CPI plus 1 per cent based on the September CPI position.</p> <p>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:</p> <ul style="list-style-type: none"> • 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
	<p><u>Rents</u></p>
76.	<p>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.</p> <p>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.</p> <p>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</p>

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.

77. 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 8 below.

78. **Table 8 – HRA Estimated Rent Loss**

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

	Year	Stock	With 1% reduction			Without 1% reduction			In year Loss	% in year loss of income (est)	Running total income loss
			% Change from previous year	With Reductions	Estimated Income	Assumed CPI increase (prior to 20/21) if no 1% decrease	Per previous increases	Estimated Income			
	2015.16	16,503		87.18	75,102,997		87.18	75,102,997	0		
	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
Rent reduction period	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

79. 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 tenant rent is currently covering some of the costs associated with these 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.

80. The weekly charges to be levied for next year are shown in Tables 9 and 10 below.

81. **Table 9 – 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

82.	<p><u>Table 10 – Supported Accommodation</u></p> <table border="1" data-bbox="309 241 1011 504"> <thead> <tr> <th data-bbox="309 241 794 315"></th> <th data-bbox="794 241 903 315">21/22</th> <th data-bbox="903 241 1011 315">22/23</th> </tr> </thead> <tbody> <tr> <td data-bbox="309 315 794 353">Community Alarm</td> <td data-bbox="794 315 903 353">£1.31</td> <td data-bbox="903 315 1011 353">£1.31</td> </tr> <tr> <td data-bbox="309 353 794 392">Support</td> <td data-bbox="794 353 903 392">£2.76</td> <td data-bbox="903 353 1011 392">£2.76</td> </tr> <tr> <td data-bbox="309 392 794 430">Management</td> <td data-bbox="794 392 903 430">£5.13</td> <td data-bbox="903 392 1011 430">£5.13</td> </tr> <tr> <td data-bbox="309 430 794 468">Careline Silver</td> <td data-bbox="794 430 903 468">£3.14</td> <td data-bbox="903 430 1011 468">£3.14</td> </tr> <tr> <td data-bbox="309 468 794 504">Careline Gold</td> <td data-bbox="794 468 903 504">£4.45</td> <td data-bbox="903 468 1011 504">£4.45</td> </tr> </tbody> </table>		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
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	<p><u>Heating Charges</u></p>																		
83.	<p>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, 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.</p> <p>Appendix 6 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.</p> <p>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.</p>																		
	<p><u>Other Key Assumptions</u></p>																		
84.	<p>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.</p>																		
85.	<p>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.</p>																		
86.	<p>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.</p>																		
87.	<p>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.</p>																		
88.	<p>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</p>																		

	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.
89.	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.
90.	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
	<u>HRA Balances</u>
91.	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.
92.	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.
93.	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.
94.	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.
95.	The HRA minimum balance will remain at £2.0M per year.
	<u>Budget Consultation</u>
96.	The draft savings proposals that have been put forward have been subject to consultation with the Executive Management Board (EMB) and relevant Cabinet Members.
97.	The draft budget proposals within this update will be the subject of scrutiny via Overview and Scrutiny Management Committee (OSMC), for input from the wider membership of the authority's councillors. The Leader and the Cabinet are keen to receive feedback on the proposals and on the potential impact they may have to help finalise the Executive's budget to be recommended to Full Council in February 2022.

	<u>Summary</u>
98.	This report updates the financial outlook at a national level. It forecasts future funding levels based on the information received up to press from Government on the level of support it will provide. It also updates spending pressures and budget commitments and the forecasts the yield from council tax and business rates using all known sources of estimated future growth.
99.	Like other councils, Southampton City Council is facing a very challenging financial position, with additional costs/loss of income due to the pandemic alongside increasing demand for services, particularly social care.
100.	The budget shortfall for 2022/23 stands at an estimated £9.01M, but the shortfall increases sharply to £25.27M in 2023/24. This, in part reflects the fact that a number of amendments to the forecast captured in the update are one-off in nature in particular around funding. The Council's net budget is currently £210M, so a future budget gap of £25.27M represents 12 per cent of council net spending. Budget plans since 2012/13 have included £163M of savings in order to balance the budget, with the great majority of the savings being delivered. However, even with such a good track record of identifying and deliver of savings, it is evident that balancing the council budget in future represents a major challenge requiring considerable focus and work.
101.	Work is on-going to close the budget gaps identified in this report.
	<u>Equality and Safety Impact Assessments</u>
102.	The Public Sector Equality Duty is a duty on public bodies which came into force on 5 April 2011 and requires the council to show that it has 'had 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.
103.	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 other relevant impacts including Community Safety (Section 17 of the Crime and Disorder Act), poverty and health and wellbeing, 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.
104.	Draft individual Equality and Safety Impact Assessments (ESIAs) have been completed by the council's Executive Management Board for those proposals contained in Appendix 4 that have been identified as requiring such an assessment, as they could have an impact on a particular group or individuals. The draft individual ESIAs are available in Members' Rooms and will be published alongside the Budget consultation.
105.	The individual ESIAs have been analysed to consider the cumulative impacts the draft savings proposals may have on particular groups and the mitigating actions that could be considered. In order to give the right perspective to the draft savings 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 Impact Assessment is available in Members' Rooms and will be

	published alongside the Budget proposals to inform the public engagement exercise.
	<u>Timetable</u>
106.	The draft 2022/23 local government finance settlement is expected in mid-December 2021. It is not known at the time of writing this report whether this will be a 1-year settlement or 3-year to match the Spending Review period. The settlement will include the council's allocation of Revenue Support Grant and Business Rates Top-Up Grant. It is expected to include details of the distribution of additional resources announced in the Spending Review.
107.	Setting of the Council Tax base and approval of the Local Council Tax Support Scheme are formally delegated to the Director of Finance & Commercialisation and will take place in late January 2022.
108.	The Cabinet will put forward its final proposals for the 2022/23 Budget, MTFS and Capital Programme at its meeting on 21 February 2022, taking into account feedback from the public engagement exercise outlined above.
109.	Full Council will set the 2022/23 Budget and agree the Band D Council Tax, MTFS and Capital Programme on 23 February 2022.
RESOURCE IMPLICATIONS	
Capital/Revenue Implications	
110.	The capital and revenue implications are fully detailed within the report.
Staffing	
111.	Staffing reductions contained within savings proposals are expected to be achieved through removal of vacant posts. The current estimated effect is around 22 Full Time Equivalent (FTE) posts.
Property/Other	
112.	None, other than those detailed in the report.
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report	
113.	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.
114.	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.
115.	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.
116.	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.
117.	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.
118.	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.
119.	Section 25 of the Local Government Act 2003 imposes a specific duty on the CFO (Section 151 officer) to formally report to Council at the time the budget is considered and the Council Tax is set on the robustness of the budget estimates and the adequacy of financial reserves. This report will be brought forward alongside the Budget and Council Tax Setting Report to Full Council in February.
120.	Of particular importance to the Council Tax setting process and Budget Meeting of the Full Council is the Council's Budget and Policy Framework Procedure Rules set out in Part 4 of the City Council's Constitution. These provide a legal framework for the decision making process whereby the Budget of the City Council is determined, and the Council Tax is set. In addition, Members need to be aware that these Rules provide a route whereby the Leader may require the Full Council to reconsider their position if they do not accept the Executive's recommended budget without amendment.
<u>Other Legal Implications:</u>	
121.	The financial forecasts contained in this report have been prepared and are submitted as part of the budget process set out in the Council's Constitution. As part of the review process by the Council's Executive Management Board, the proposals contained in this report have been checked from a legal viewpoint.
RISK MANAGEMENT IMPLICATIONS	
122.	Price and wage inflation is also a cause for concern. This is partly due to the continuing impact on the economy of pandemic and also due to the crisis effecting energy markets.
123.	The on-going implications of the pandemic will continue to be considered in the build of the budget. As stated above, Government has made no promises for further funding for the costs arising from the pandemic.

124.	The impact on council tax income due to numbers in receipt of council tax reduction relief remains uncertain, as is the impact of the pandemic on business rates. Revisions to previous estimates have been made in this report, with beneficial effects on funding compared to previous assumptions, but it remains a risk area and will be reviewed and re-assessed in the run-up to preparing the budget papers for 2022/23 and beyond at Council in February 2022.
125.	Any further impact from risk will be reviewed as part of the update of the MTFS to be approved by Full Council in February 2022.
POLICY FRAMEWORK IMPLICATIONS	
126.	The Medium Term Financial Strategy and the Budget are key parts of the Policy Framework of the Council and a Budget and Council Tax for 2022/23 must be proposed by the Cabinet for consideration by the Full Council under the Constitution.

KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	All
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	New Commitments
2.	Autumn Budget and Spending Review 2021
3.	Budget Pressures
4.	Draft Savings Proposals
5.	HRA 40 Year Business Plan Operating Account
6.	HRA – proposed heating charge increase by property band

Documents In Members' Rooms

1.	Individual ESIA's
2.	Cumulative ESIA

Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	Yes
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Data Protection Impact Assessment

Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	Yes
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Other Background Documents

Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules /
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		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.		