

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		
<u>CONTACT DETAILS</u>			
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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Appendix 6 of this report is not for publication by virtue of categories 3 (financial and business affairs), and 7A (obligation of confidentiality) of paragraph 10.4 of the Council's Access to Information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 ESAs 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.
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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 ESAs 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)	<p>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</p> <p>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.</p> <p>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).</p> <p>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).</p> <p>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).</p> <p>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).</p>
xiv)	<p>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.</p>
General Fund Capital Programme	
xv)	<p>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.</p>
xvi)	<p>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.</p>
xvii)	<p>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.</p>
xviii)	<p>Approve the request to spend £2.75M as part of the SEND work as detailed in paragraph 10 of Appendix 2.</p>
xix)	<p>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.</p>
xx)	<p>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.</p>
xxi)	<p>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.</p>
xxii)	<p>Approve the Council's Capital Strategy detailed in Annex 2.3.</p>
xxiii)	<p>Approve the Council's MRP Strategy detailed in Annex 2.3(a).</p>
xxiv)	<p>Approve the Council's Investment Strategy detailed in Annex 2.3(b).</p>

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.
<u>CAPITAL STRATEGY AND GENERAL FUND CAPITAL PROGRAMME</u>	
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.
<u>HOUSING REVENUE ACCOUNT BUDGET AND CAPITAL PROGRAMME</u>	
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.
<u>STATEMENT OF THE SECTION 151 OFFICER IN ACCORDANCE WITH THE LOCAL GOVERNMENT ACT 2003 – ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES</u>	
19.	<p>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.</p> <p>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,</p>

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

	<p>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.</p> <ul style="list-style-type: none"> • 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.	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
21.	<p>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.</p> <p>Each authority is required to consider their Chief Financial Officer's report when setting the level of council tax.</p>

22.	<p>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.</p>
23.	<p>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.</p>
24.	<p>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.</p> <p>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.</p> <p>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.</p>
25.	<p>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.</p>

26.	<p>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).</p> <p>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.</p>
27.	<p>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.</p>
28.	<p>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.</p> <p>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.</p>
29.	<p>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).</p> <p>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.</p>
30.	<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> • £32.6M unallocated corporate revenue reserves, • Contingency and inflation funds in the budget of £4.6M (uncommitted), • The General Fund Balance of £10.1M <p>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.</p> <p>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).</p>

	<u>CIPFA Resilience Index</u>
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.
	<u>CIPFA Financial Management Code</u>
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 <u>minimum standards</u> . 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: <ol style="list-style-type: none"> 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.

	<p>More detail is given in Annex 1.1 d) to the Medium Term Financial Strategy.</p> <p>A report to the Governance Committee on the FM Code can be found at: Governance Committee 14 February 2022</p>
	<p><u>BUDGET CONSULTATION</u></p>
37.	<p>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.</p>
38.	<p>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.</p>
	<p><u>Consultation on St Mary's Leisure Centre</u></p>
39.	<p>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.</p>
	<p><u>EQUALITY AND SAFETY IMPACT ASSESSMENTS</u></p>
40.	<p>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.</p>
41.	<p>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.</p>
42.	<p>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.</p>
43.	<p>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,</p>

	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.
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RESOURCE IMPLICATIONS

Capital/Revenue

44.	The capital and revenue implications are fully detailed within the report.
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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.
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Staffing Implications

46.	
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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.
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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.
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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.
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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.
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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.
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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
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	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.
<u>Other Legal Implications</u>	
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
<u>SUPPORTING DOCUMENTATION</u>	
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
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Privacy Impact Assessment

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
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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 / 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

- Budget Report – The Revenue Budget 2022/23, Medium Term Financial Strategy and Capital Programme
- Appendix 1 – the Revenue Budget 2022-23 and MTFS 2022-23 to 20225-26
 - Annex 1.1 – MTFS 2022-23 to 20225-26
 - Annex 1.1(a) to MTFS – General Fund Medium Term Financial Forecast
 - Annex 1.1(b) to MTFS – General Fund Earmarked Revenue Reserves
 - Annex 1.1(c) to MTFS – HRA Medium Term Financial Forecast 2021-22 to 2025-26
 - Annex 1.1(d) to MTFS – FM Code principles
 - Annex 1.2 – 2022-23 Council Tax Calculation
 - Annex 1.3 – 2022-23 Council Tax Collection Fund Estimates
 - Annex 1.4 – Government Grants
 - Annex 1.5 – Executive Commitments
 - Annex 1.6 – Budget Pressures
 - Annex 1.7 – Savings Proposals
 - Annex 1.8 – Movement in Budget Shortfall
- Appendix 2 – The Capital Programme and Strategy 2021-22 to 2026-27
 - Annex 2.1 – GF Capital Budget Variations Since Q3
 - Annex 2.2 – General Fund Scheme Details
 - Annex 2.3 – Capital Strategy 2022/23
 - Annex 2.3a – MRP Strategy 2022/23
 - Annex 2.3b – Investment Strategy 2022/23
- Appendix 3 – HRA Budget 2022-23 and Capital Programme 2021-22 to 2026-27
 - Annex 3.1 – HRA 40 Year Business Plan – Operating Account
 - Annex 3.2 – HRA heating charges
 - Annex 3.3 – HRA 40 Year Business Plan – Major Repairs and Improvement Plan
- Appendix 4 – Statutory Power to Undertake Proposals in the Report
- Appendix 5 – HRA Capital Scheme Details – Confidential
- Appendix 6 – Refinancing - Confidential
- Members’ Room Documents – Individual ESAs and Cumulative Impact Assessment