Annex 1.1

Southampton City Council

MEDIUM TERM FINANCIAL STRATEGY

2022/23 – 2025/26

MEDIUM TERM FINANCIAL STRATEGY 2022/23 – 2025/26

Contents

INTRODUCTION

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

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

The key overriding aim of the MTFS is therefore:

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

The 6 key objectives of the MTFS are to:

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

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

The Council's budget setting process centres around the key themes contained within the City Council Corporate Plan to ensure resources are directed towards agreed priorities. The budget is presented to show the resources being allocated to these priority areas. During the 2022/23 budget process, emphasis has been given to achieving growth, income generation and efficiency savings to help address the budget shortfalls the Council faces, to minimise the impact on front line services. It is expected that this approach will continue.

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

SECTION 1. **Local Financial Forecast**

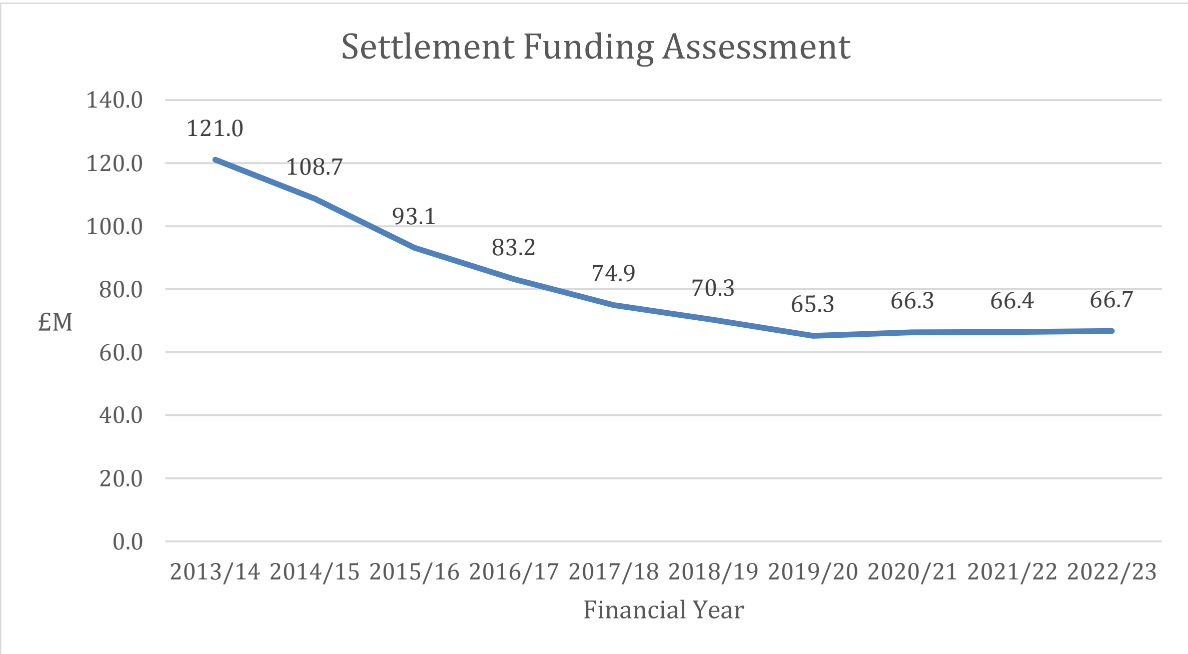
1.1 Financial Trends

1.1.1 Settlement Funding Assessment

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

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

CHART: SETTLEMENT FUNDING ASSESSMENT

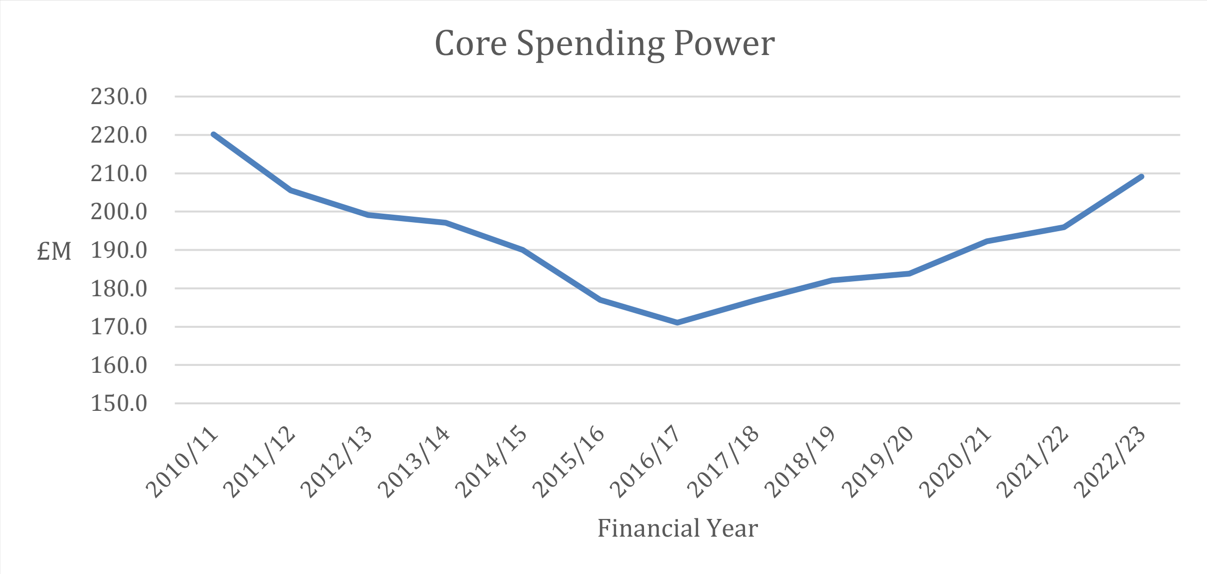


1.1.2 Core Spending Power

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

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

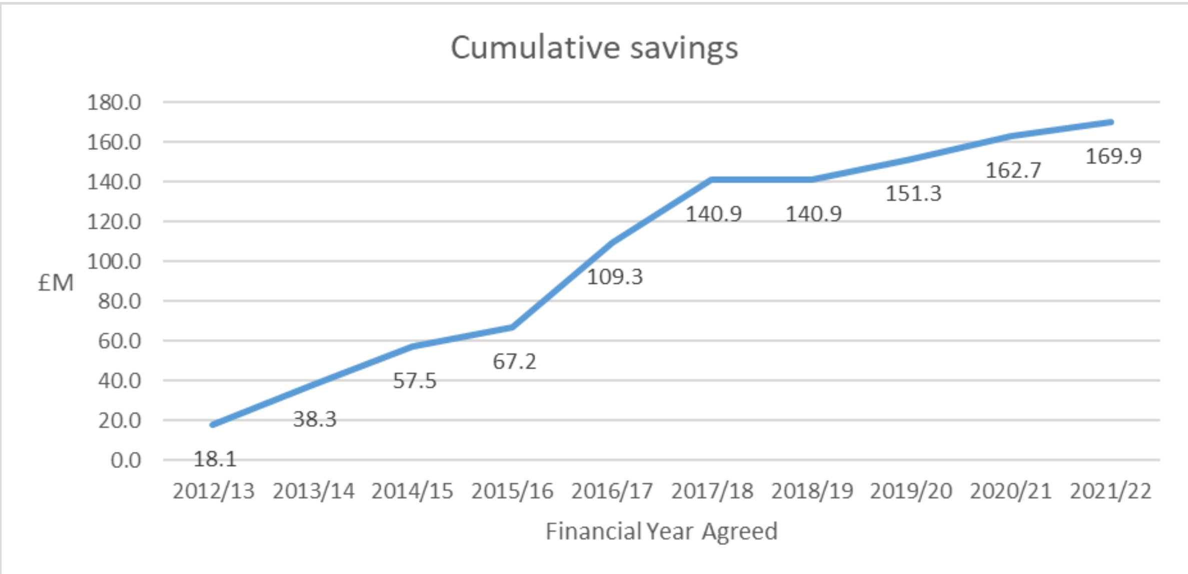
CHART: CORE SPENDING POWER



1.1.3 Savings History

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

CHART: SAVINGS HISTORY



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

1.2 COUNCIL RESOURCES

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

TABLE 1 SUMMARY OF KEY FUNDING ASSUMPTIONS

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

1.2.1 Council Tax and Adult Social Care Precept

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

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

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

CHART: CHANGE IN COUNCIL TAX BASE

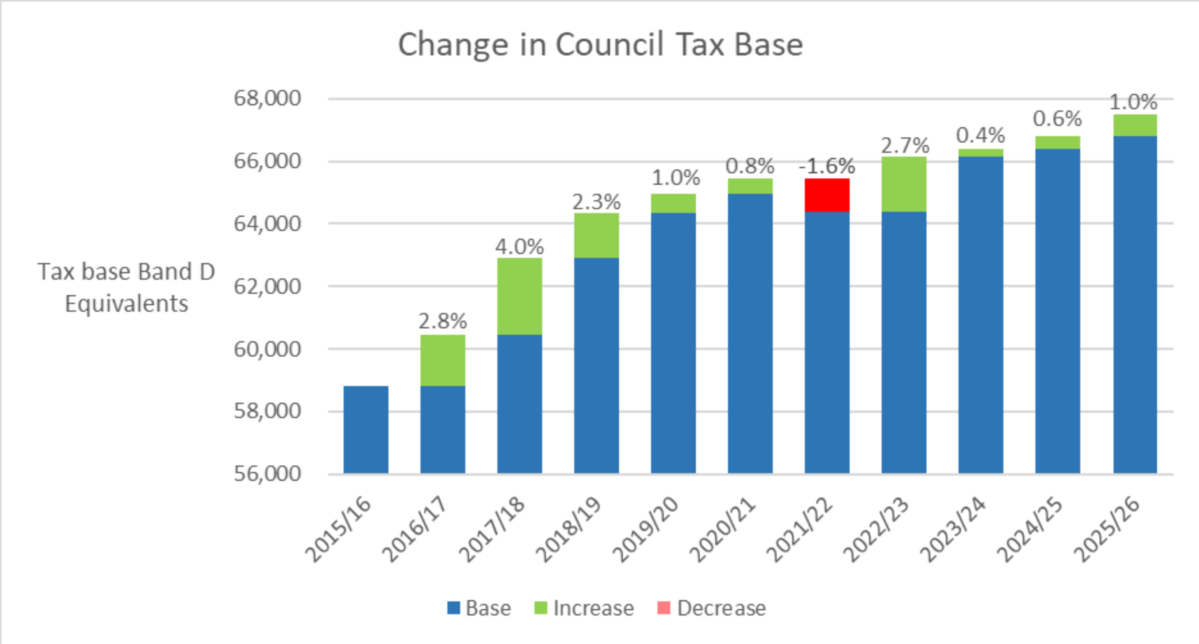


Table 2 below shows the council tax and adult social care precept income that has been included in the medium term financial forecast at Annex 1.1(a).

TABLE 2 COUNCIL TAX INCOME

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

1.2.2 Business Rates

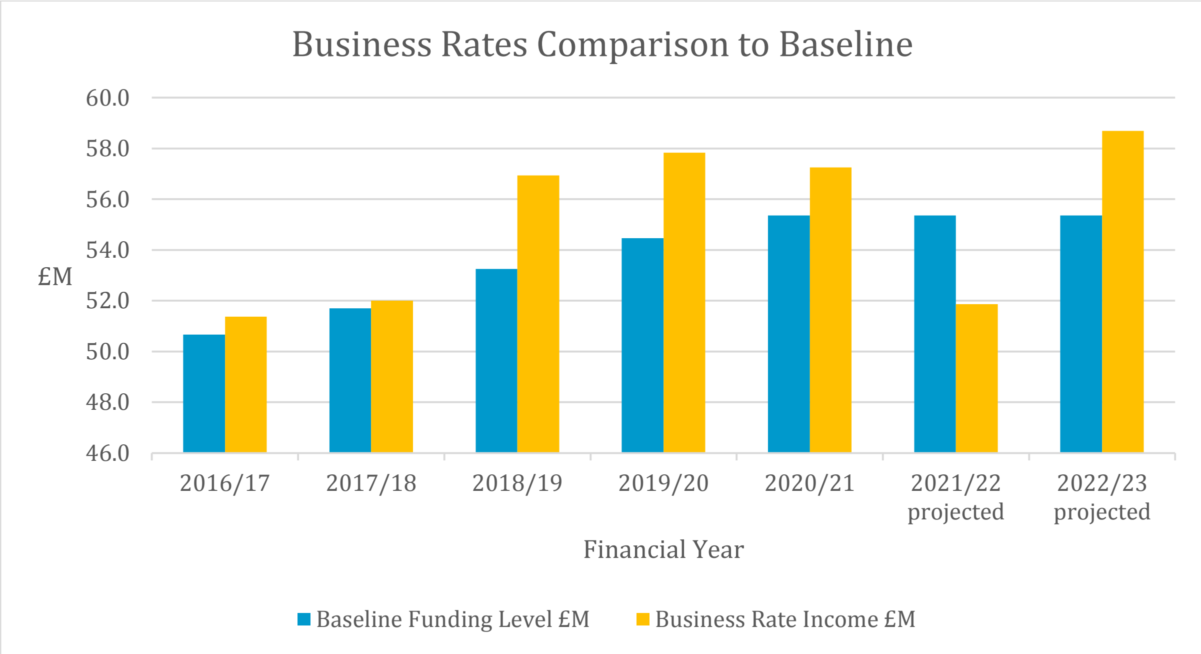
Under the Government's funding arrangements for local authorities the business rate retention scheme means councils retain a proportion of their business rates, including growth, but also take the risk of reductions in business rates during times of recession, although there are 'safety net' arrangements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

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

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

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

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



SOLENT FREEPORT

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

1.2.3 Government Grants

REVENUE SUPPORT GRANT (RSG)

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

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

NEW HOMES BONUS (NHB)

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

PUBLIC HEALTH GRANT

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

TABLE 3 PUBLIC HEALTH GRANT

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

OTHER GRANTS

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

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

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

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

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

1.3 OTHER FINANCIAL ASSUMPTIONS

1.3.1 Pay Inflation

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

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

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

1.3.2 National Insurance - Employer Costs

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

1.3.3 National Living Wage

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

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

1.3.4 General Inflation

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

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

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

1.3.5 Pension Fund - Employer Costs

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

1.3.6 Centrally Held Contingency

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

1.4 EXECUTIVE COMMITMENTS, PRESSURES AND SAVINGS

1.4.1 Executive Commitments

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

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

TABLE 4 SUMMARY OF EXECUTIVE COMMITMENTS

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

Numbers are rounded

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

1.4.2 Budget Pressures

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

TABLE 5 SUMMARY OF BUDGET PRESSURES

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

Numbers are rounded

1.4.3 Savings

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

TABLE 6 SUMMARY OF SAVINGS

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

Numbers are rounded

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

1.5 BALANCES AND EARMARKED RESERVES

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

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

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

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

TABLE 7 FORECAST USE OF CORPORATE EARMARKED RESERVES

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

Numbers are rounded

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

TABLE 8 GENERAL FUND EARMARKED RESERVES

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

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

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

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

1.6 FORECAST FINANCIAL POSITION 2022/23 – 2025/26

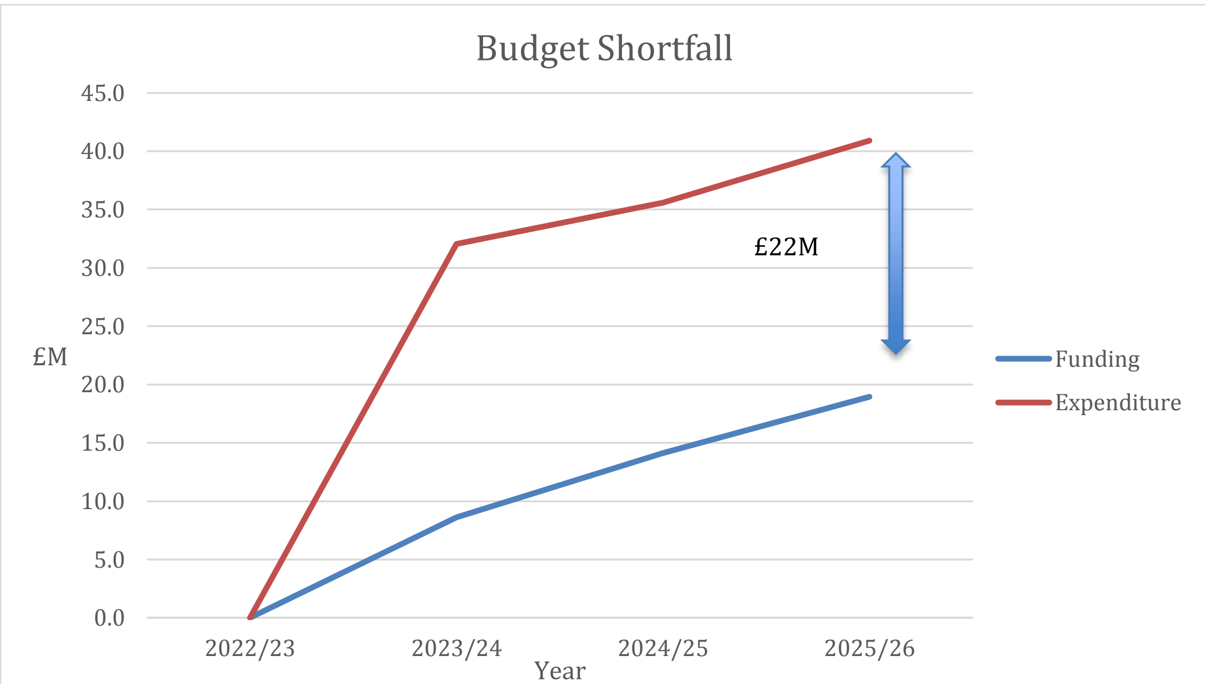
The Council's current forecast financial position is detailed below and includes the implications of the local government finance settlement. It will be reviewed each year of budget setting to reflect any new pressures, changes in funding assumptions and any revision to the Council Strategy.

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

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

TABLE 9 FORECAST BUDGET SHORTFALL

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



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

1.7 CAPITAL PROGRAMME

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

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

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

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

1.8 HOUSING REVENUE ACCOUNT

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

The main points to note are:

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

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

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

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

1.9 KEY RISKS

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

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

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

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

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

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

1.10 MANAGING BUDGETS AND FORECASTING

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

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

SECTION 2. **Context**

2.1 STRATEGIC CONTEXT

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

2.1.1 Southampton City Strategy 2015-2025

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

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

It also includes four cross cutting themes:

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

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

2.1.2 Southampton City Council Strategy

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

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

2.1.3 Other Major Strategies

CUSTOMER ACCESS STRATEGY 2021-2026

The Council's customer vision is:

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

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

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

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

IT STRATEGY 2021-2025

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

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

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

WORKFORCE DEVELOPMENT STRATEGY

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

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

2.1.4 Key Financial Strategies

CAPITAL STRATEGY

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

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

TREASURY MANAGEMENT STRATEGY

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

INVESTMENT STRATEGY

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

BORROWING STRATEGY

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

2.2 POLICIES, PLANS AND OTHER FACTORS

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

2.2.1 Demographics

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

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

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

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

2.2.2 National and Local Policy

COVID-19 PANDEMIC

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

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

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

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

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

END OF THE TRANSITION PERIOD FOR EXITING THE EUROPEAN UNION

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

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

AFGHAN RELOCATIONS AND ASSISTANCE PROGRAMME

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

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

NET ZERO AND THE GREEN ECONOMY

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

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

ADULT SOCIAL CARE REFORM

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

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

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

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

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

2.2.3 Socio-Economic Factors

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

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

LOOKED AFTER CHILDREN

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

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

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

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

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

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

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

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

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

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

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

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

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

2.2.4 Physical-environmental factors

HOUSING

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

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

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

2.2.5 Wider Partnership Working

BETTER CARE FUND

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

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

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

2.2.6 Strategic Contracts

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

2.3 NATIONAL ECONOMIC AND PUBLIC EXPENDITURE PLANS

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

2.3.1 Autumn Budget and Spending Review 2021

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

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

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

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

2.3.2 Provisional Local Government Finance Settlement 2022/23

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

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

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

2.3.3 Financial outlook for 2023/24 and after

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

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

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

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

Conclusion

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

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