

BRIEFING PAPER

SUBJECT: 2023/24 BUDGET UPDATE

DATE: 2 FEBRUARY 2023

RECIPIENT: OVERVIEW AND SCRUTINY MANAGEMENT COMMITTEE

THIS IS NOT A DECISION PAPER

SUMMARY:

At its meeting on 21 February 2023 Cabinet will recommend the 2023/24 revenue budget, medium term financial strategy and capital programme to full Council for approval on 22 February 2023. This briefing paper sets out progress to date on achieving a balanced revenue budget for 2023/24 and includes a draft list of savings proposals being considered, subject to the outcome of the budget consultation exercise. Work is continuing to identify what further measures could be taken to reduce the call on reserves to balance the budget for 2023/24.

The background to the 2023/24 budget process is the 'Essential Spend' regime in place in response to the considerable financial pressures the Council currently faces. This regime is expected to continue into 2023/24. All Councils are facing considerable pressures due to the sharp rise in inflation, energy cost increases, pay awards being higher than expected and strong demand for council services. For example, as reported to Cabinet in November, in 2022/23 the total forecast overspend within Children and Learning when added to that of Health, Adults and Leisure amounted to £12.8M with the demand for social care, across the country and reflected in the City, being a major driver. Furthermore, energy costs and fuel are already producing an estimated £2.7M overspend in this year. The 2022/23 pay award cost, which was negotiated nationally at a flat rate increase of £1,925 was effectively around 5.7% for Southampton and came in at around £4M beyond the budgeted sum, although this extra was covered from central contingency it clearly represents an ongoing budget pressure.

All budget estimates remain under review pending finalisation of the draft budget, and so may change between now and publication of the February Budget report.

BACKGROUND and BRIEFING DETAILS:

1. A report providing an update on the budget forecast for 2023/24 and savings plans being consulted upon was presented to Cabinet in November 2022. The report outlined anticipated changes to government funding, budget and inflationary pressures faced by the Council and draft proposals and measures to help mitigate the forecast budget shortfall. The proposals within the report did not achieve a balanced budget for 2023/24, with a shortfall of £28.9M still to be addressed. The report is available as agenda item 31 at: [Agenda for Cabinet on Tuesday, 8th November, 2022, 4.30 pm | Southampton City Council](#)
2. The summary of the forecast budget shortfall as reported in November is set out in Table 1 below.

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Table 1 – Forecast Budget Shortfall November 2022

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M
Forecast Budget Shortfall February 2022 (after agreed savings)	23.43	21.46	21.95	21.95
Funding Changes	(6.82)	(6.82)	(6.82)	(6.82)
Use of Reserves	(1.00)			
Budget and Inflationary Pressures	30.34	27.80	29.78	35.94
Draft Savings Proposals	(17.05)	(16.21)	(18.82)	(19.51)
Forecast Budget Shortfall November 2022	28.90	26.23	26.10	31.57

Numbers are rounded

3. Work has been continuing since November to identify further ways of meeting the budget shortfall. There have been changes to budget/inflationary pressures and further pressures have also emerged. The Provisional Local Government Finance Settlement was announced on 19 December 2022 setting out government funding allocations for individual local authorities. The updated position taking these changes into account is shown in Table 2 below.

Table 2 – Updated Forecast Budget Shortfall January 2023

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M
Forecast Budget Shortfall November 2022	28.90	26.23	26.10	31.57
Funding Changes	(6.47)	(11.91)	(13.38)	(19.38)
Use of Reserves	(4.14)	0.00	2.00	2.00
New/Amended Budget and Inflationary Pressures	7.92	13.24	11.72	13.96
New/Amended Draft Savings Proposals	(4.98)	(2.96)	(3.38)	(3.53)
Updated Budget Shortfall January 2023 before additional council tax flexibilities	21.23	24.60	23.05	24.62
Additional Council Tax/Adult Social Care Precept Flexibilities	(3.29)	(3.38)	(3.50)	(3.60)
Updated Forecast Budget Shortfall January 2023 after additional council tax flexibilities	17.94	21.22	19.55	21.02

Numbers are rounded

4. Details of the £22.03M draft savings proposals for 2023/24 (£17.05M per Table 1 + a further £4.98M per Table 2), rising to £23.04M in 2026/27, included within the updated budget shortfall position noted above are provided in Annex 1. These are subject to the outcome of the budget consultation exercise, responses to which are currently being analysed.
5. In the Provisional Local Government Finance Settlement local authorities were given the ability to apply an increase in core council tax of up to 3% and an increase in the adult social care precept of up to 2% for 2023/24 without the need for a local referendum. The February 2022 MTFS assumed that the core council tax would increase by 1.99% and there would be no increase in the adult social care precept. Table 2 above shows the additional council tax income that would be generated by increasing council tax to the maximum allowable without a local referendum.

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6. By law the Council is required to set a balanced budget for the forthcoming year. As such, any remaining budget shortfall would need to be met from reserves. Work is continuing to identify what further measures could be taken to reduce the call on reserves to balance the budget for 2023/24. Options being considered include increasing income and reviewing the capital programme, given the substantial rises on debt financing and construction costs.
7. The capital programme has been under review. Normally re-phasing is due to delays, over-estimation of the likely delivery timescale when first included in the programme or increased inflationary or other costs that cannot be absorbed within the project cost envelope. This detailed review remains underway, but the following are significant instances of where a re-phasing of the scheme will be proposed within the 2023/24 budget papers:
 - Winchester Rd Property Adaptions (£1.1M) – Slippage from 2022/23 to 2023/24, lease being agreed prior to work commencing.
 - The Way we Work (£1M) – removed from the programme in 2023/24 as the capital works have now been completed.
 - Art Gallery Roof (£1.4M) - Slippage from 2022/23 to 2023/24, due to procurement issues.
 - Corporate Asset Decarbonisation Scheme (£3M) – paused for 2023/24, whilst a review of the business case confirms the borrowing necessary will be paid for from savings.
 - Itchen Bridge (£4M) – Slippage from 2023/24 to 2024/25, due to clustering of major City Centre works with significant congestion implications if bridge works coincided with them and the slippage over recent months with preparatory works and hence what can reasonably be expected to be delivered in summer 2023.
 - Fleet Modernisation (net £2M) – £1M reduction in 2023/24, 2024/25 and 2025/26, £1M added in 2026/27, pending more detailed consideration of Fleet Modernisation and utilisation works.

This will help deliver the saving from the review of capital assumed in the list of savings. Work continues to finalise the capital programme as part of the papers submitted for February Council.

8. It is evident that use of reserves both to cover the in-year forecast overspend (reported at £9.59M as at quarter 2) plus a major draw on reserves for the 2023/24 budget (which would have to be £17.94M at the current point based on Table 2) would have a detrimental impact on the strength of Council finances. This would mean heightened financial risks for 2023/24, whilst at the same time the Council is also looking to deliver a very significant level of savings. Given the potentially significant sum that will be required from reserves to balance the 2023/24 budget, work will need to continue after the budget has been set to find further ways to reduce the call on reserves in 2023/24, to allow capacity for transformation and invest to save activity as well as sufficient cover for the financial risks faced by the Council. Such further actions will be essential to reduce a high risk of a crisis point being reached in 2023 and under such circumstances, it would not take much for the Council to face a S114 notice to be issued. The lessons from other councils are that early action reduces the risk of reaching the point of a S114 notice being required.
9. For information, Annex 2 contains a summary table of the current main Medium Term Financial Strategy (MTFS) assumptions. These are under regularly review and may yet change before the draft budget is finalised. They are a mixture of mainly economic and

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future funding assumptions and will be used to inform the expenditure and income projections for the Council for financial planning purposes when looking at the budget over a four year time horizon, updating the forecast of the future budget shortfall as part of the February budget papers.

10. Government did encourage local authorities to apply reserves to help address their budget pressures, when it made a policy announcement shortly before Christmas. Additionally, the published figures of local government funding support make an assumption that all councils will use the maximum possible council tax rise, and by **implication**, the Government's settlement assumes 5% for councils such as Southampton. It is of note that Council Tax provides a regular and ongoing financial benefit, whilst reserves by their nature are a one off source of financing only, and excessive reliance on reserves indicates the budget has fundamental underlying issues of sustainability. Reducing reserves will inevitably expose the authority to greater financial risks and also reduce the potential sums available from reserves to finance 'invest to save' type measures and other on-going savings.
11. At the start of 2022/23, the Medium Term Financial Risk (MTFR) reserve stood at £57M, with around £15M committed for supporting the budget during 2022/23, therefore leaving an uncommitted balance of approx. £42M. Other reserves have previously been consolidated into the MTFR as the key reserve to cover the Council's financial risks, budget management, risks around non delivery of savings or shortfalls in expected funding and supporting invest to save measures (including transformation and staff restructures). The MTFR reserve is therefore key to the financial resilience and robustness of the Council. With expected use in 2022/23, including covering the authority's forecast overspend of £9.6M (as at quarter 2), if the MTFR is used to cover in full the shortfall identified in table 2, its balance would be around the £12M mark remaining, before any calls for transformation, restructures, non delivery of savings or other risks.
12. The S151 officer will include his formal view on the robustness of estimates and the adequacy of reserves as part of the budget report.

RESOURCE/POLICY/FINANCIAL/LEGAL/RISK MANAGEMENT IMPLICATIONS:

13. Details will be set out in the Executive decision making report published on 13 February 2023.

OPTIONS and TIMESCALES:

14. On 21 February 2023 Cabinet will recommend the budget proposals for approval by Full Council on 22 February 2023.

Appendices/Supporting Information:

- Annex 1 - Draft Savings Proposals
- Annex 2 – Draft MTFS Assumptions

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