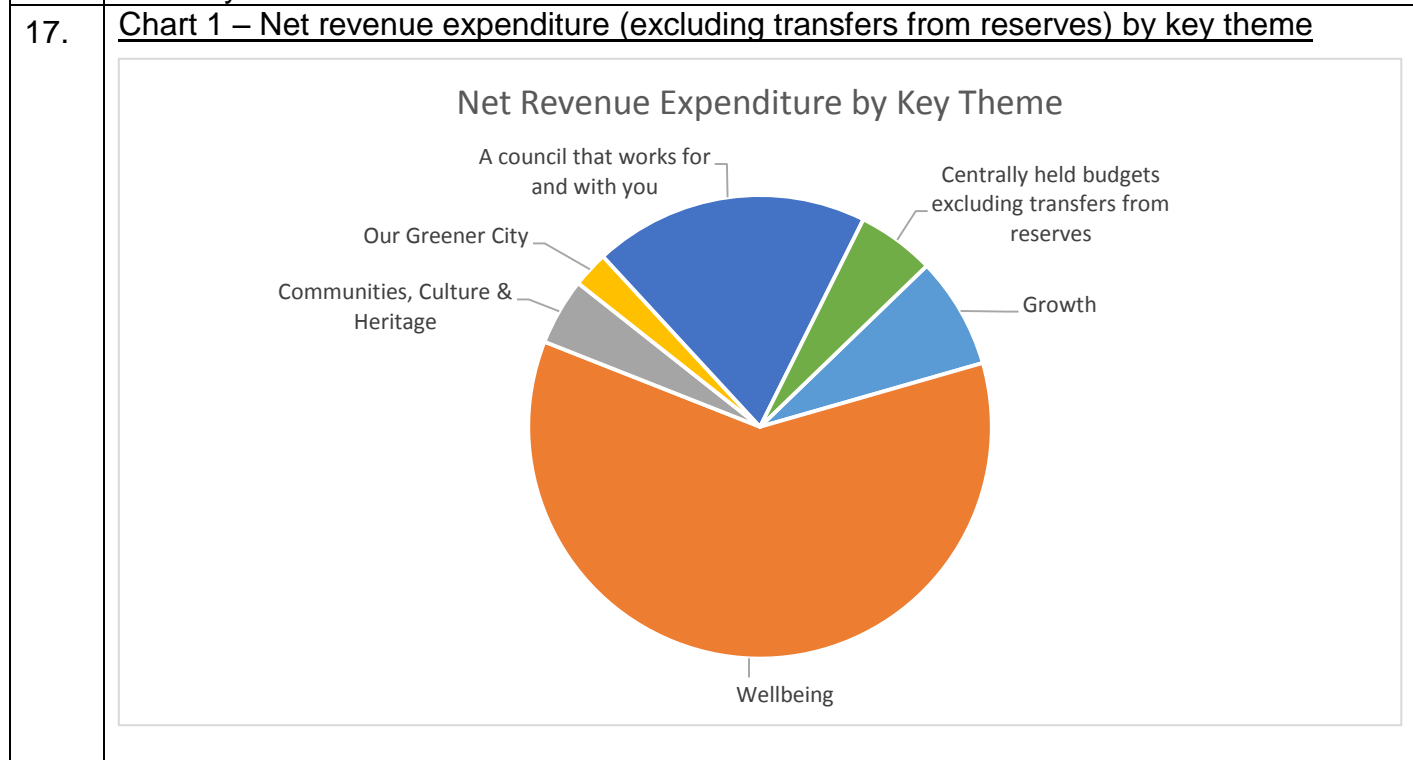


THE REVENUE BUDGET 2022/23 AND MEDIUM TERM FINANCIAL STRATEGY 2022/23 TO 2025/26	
<u>INTRODUCTION</u>	
1.	This report sets out how the budget for 2022/23 will be balanced whilst minimising the impact on front line services of the authority. The proposed net revenue budget for 2022/23 is £193.05M. This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

	provisional settlement only provides detailed allocations for 1 year. The final settlement was confirmed on 7 February 2022, with minimal changes to the allocations announced in December.
8.	Nationally the settlement includes £636M additional Social Care Grant, £822M for a one-off Services Grant and a £70M inflationary uplift to Revenue Support Grant. Funding for the first stage of social care reform, £162M Market Sustainability Grant, was also announced.
9.	The settlement confirmed local authorities could apply an increase in core council tax of up to 2 per cent and an increase in the adult social care precept of up to 1 per cent for 2022/23 without the need for a local referendum. There is no indication as to whether there will be flexibility to carry forward any unused element of the 1 per cent adult social care precept into future years.
10.	The government announced its intention to begin work again in 2022 on reviewing how the local government finance system operates, including updating assessments of needs and resources, in consultation with the local government sector and other stakeholders. Any proposed changes could have consequences for the Council's grant funding in future years and on the level of business rates growth retained by the Council.
11.	Further details of the provisional settlement are provided in section 2.3.2 of the Medium Term Financial Strategy (Annex 1.1).
	<u>Other national issues affecting the MTFS</u>
12.	Responding to the COVID-19 pandemic has been the priority for both central and local government over the last 2 years and Southampton City Council has played a critical role in helping to lead the local response. The pandemic has had a significant financial impact on the Council, through additional costs, reduced income and savings that cannot be delivered. Although the government has provided additional grant funding towards costs and income losses in 2020/21 and 2021/22 this does not cover all of the costs and losses that the Council has faced. The financial effects of the pandemic will continue to be felt over the medium term, however the 2022/23 provisional settlement does not include any funding specifically towards COVID-19 budget pressures.
13.	Other issues affecting the MTFS include: <ul style="list-style-type: none"> • End of the transition period for exiting the European Union • Afghan Relocations and Assistance Programme • Net zero strategy and the green economy • Adult social care reform
14.	Further details are set out in section 2.2.2 of the Medium Term Financial Strategy (Annex 1.1).
	<u>LOCAL CONTEXT</u>
	<u>Council Priorities</u>
15.	The revenue budget and MTFS are integral to the delivery of the City Council Corporate Plan. The Plan sets out how we will achieve our vision of Southampton as a city of opportunity and has five key themes to deliver the strategic goals of an ambitious, more prosperous, healthy, happy and hopeful city, which are: <ul style="list-style-type: none"> • Growth • Wellbeing • Communities, Culture, & Heritage • Our Green City • A council that works for and with you

16. The Council’s budget setting process centres around these key themes to ensure resources are directed towards agreed priorities. Chart 1 below shows the £231.7M revised net revenue expenditure budget (excluding transfers from reserves) for 2021/22 broken down over key themes.



Legacy of Public Sector Spending Reductions

18. The settlement funding assessment (SFA) is the Government’s calculation of funding required by a local authority after allowing for income generated from council tax.

19. Government measures to reduce public sector spending in the previous decade saw a significant reduction in the funding provided to local authorities. Between 2013/14 (when the current local government finance system was introduced) and 2019/20, the Council’s SFA reduced by almost a half from £121.0M to £65.3M.

20. The Council’s SFA for 2022/23 has increased by only £0.3M compared to 2021/22 in the local government finance settlement, as the bulk of the additional resources announced in the spending review have been allocated through specific grants, some of which are one-off. Taken together with the £1.1M combined uplift for the previous 2 years, this only equates to a £1.4M increase compared to the £55.7M reduction over the previous 6 years.

21. Core Spending Power (CSP) is the Government’s measure of resources available to local authorities to fund services delivery, taking into account the SFA, certain government grants and council tax.

22. The Council’s CSP for 2022/23 is still not back to the level it was in 2010/11. In real terms the Council has seen a 24.6% reduction in resources since 2010.

23. Further details are provided in sections 1.1.1 and 1.1.2 of the Medium Term Financial Strategy (Annex 1.1).

Savings History

24. Southampton City Council has agreed savings worth over £169.9M in its budget from 2012/13 to 2021/22 and including any step-up in amounts for future years, which has been a necessary part of achieving a balanced budget. More details are included in section 1.1.3 of the Medium Term Financial Strategy (Annex 1.1).

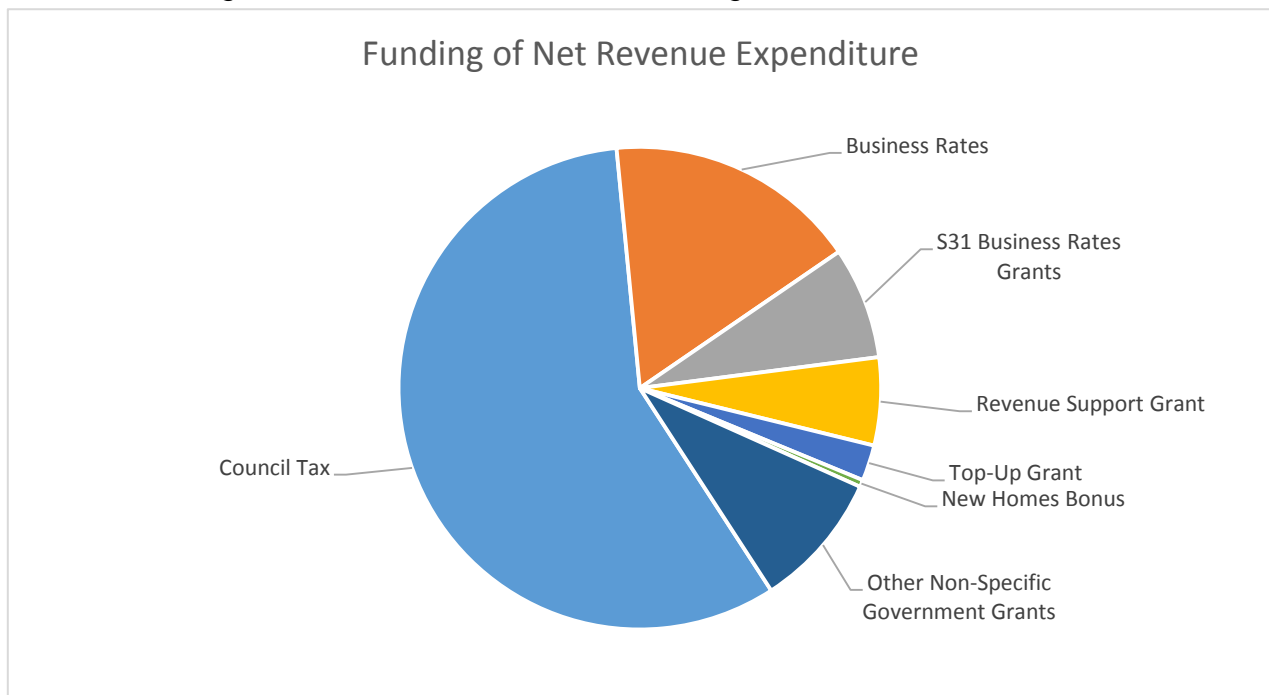
	<u>2021/22 General Fund Revenue Forecast Outturn</u>
25.	The 2021/22 forecast outturn for the General Revenue Fund is a deficit of £9.99M on net revenue expenditure, offset by a surplus on financing of £1.78M, leaving a net deficit of £8.20M. Of this, £7.48M relates to 'business as usual' activities and £0.72M to COVID-19. It is planned to meet the forecast deficit from the Social Care Demand Reserve (£6.75M) and centrally held budgets (£1.45M).
26.	The major share of the adverse position within net revenue expenditure is attributable to Children's Social Care, which has a forecast deficit on 'business as usual' activities of £6.30M, mainly relating to Looked After Children Provision.
27.	Further details on the forecast outturn position for 2021/22 are included within the report on the Financial Monitoring for the period to the end of December 2021 to be considered by Cabinet at its meeting on the 21 February 2022. This latest position has been taken into consideration in updating the Medium Term Financial Strategy.
	<u>2021/22 Collection Fund Forecast Outturn</u>
28.	Southampton City Council's share of the forecast surplus to be carried forward on the Collection Fund after applying government grant for business rates reliefs is £5.41M. This comprises a £2.25M surplus for Council Tax and a £3.16M surplus (after grant) for business rates. The surplus arises from an improved outturn for 2020/21 compared with the estimate used in setting the budget in February 2021 and an improved in-year position. Further details are included within the Financial Monitoring for the period to the end of December 2021 report to be considered by Cabinet at its meeting on the 21 February 2022.
29.	There is a timing difference between receiving government grant funding for COVID-19 related business rate reliefs and when the deficit caused by those reliefs is to be recovered from the General Fund. In practice, the government grant received in 2021/22 will need to be carried forward via reserves to offset the deficit being met from the General Fund in 2022/23.
30.	The government made regulations in 2020 to require, by exception, 2020/21 in-year deficits to be spread over 3 years. Consequently, £2.4M of the Council's share of the estimated deficit for 2020/21 is being carried forward to be met in 2022/23 and 2023/24, £1.2M in each year. This was factored into the Medium Term Financial Forecast agreed in February 2021.
	<u>MEDIUM TERM FINANCIAL STRATEGY AND GENERAL FUND BUDGET</u>
31.	The Medium Term Financial Strategy (MTFS) provides a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the Council's priorities.
32.	There are 6 key aims: <ul style="list-style-type: none"> • To provide financial parameters within which budget and service planning should take place; • To ensure the Council sets a balanced budget; • To focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources. Ensuring services are defined on the basis of a clear alignment between priority and affordability; • To ensure the Council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area and where ring-fenced government funding is reduced the service area takes action to reduce expenditure accordingly;

	<ul style="list-style-type: none"> To plan the level of fees, charges and taxation in line with levels that the Council regard as being necessary, acceptable and affordable to meet the Council's aims, objectives, policies and priorities whilst gradually reducing the Council's reliance on Central Government funding; and To ensure that the Council's long term financial health and viability remain sound. 																																													
33.	The MTFs goes up to the financial year 2025/26 however, given local government funding allocations have only been provided for 1 year and uncertainty around local government finance system reforms, the impact of social care reform and the continuing effects of the pandemic, the future years are only indicative at this stage.																																													
	<u>Update on budget for 2022/23 at December 2021</u>																																													
34.	A report providing an update on the budget forecast for 2022/23 onwards was presented to Cabinet in December 2021.																																													
35.	The report outlined budget allocations over the medium term for new commitments agreed at Full Council in July 2021, budget pressures being faced by the Council and set out draft proposals and measures to help mitigate the forecast budget shortfall. The proposals within the report did not achieve a balanced budget for 2022/23, with a shortfall of £9.01M still to be addressed. The report is available as agenda item 10 at: Agenda for Cabinet on Monday, 20th December, 2021, 6.00 pm Southampton City Council																																													
36.	A summary of the proposals put forward in December is provided in Table 1 below.																																													
	<p><u>Table 1 – General Fund Revised Budget Shortfall at December 2021</u></p> <table border="1"> <thead> <tr> <th></th> <th>2022/23 £M</th> <th>2023/24 £M</th> <th>2024/25 £M</th> <th>2025/26 £M</th> </tr> </thead> <tbody> <tr> <td>Forecast Budget Shortfall as at February 2021</td> <td>22.52</td> <td>27.31</td> <td>26.57</td> <td>26.57</td> </tr> <tr> <td>New Commitments</td> <td>4.93</td> <td>4.53</td> <td>4.44</td> <td>4.50</td> </tr> <tr> <td>Council Tax and Business Rates</td> <td>(13.38)</td> <td>(6.82)</td> <td>(6.79)</td> <td>(11.58)</td> </tr> <tr> <td>Use of Reserves</td> <td>(5.41)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Inflation</td> <td></td> <td>2.51</td> <td>2.52</td> <td>7.62</td> </tr> <tr> <td>Budget Pressures</td> <td>10.44</td> <td>11.70</td> <td>12.54</td> <td>13.27</td> </tr> <tr> <td>Draft Savings Proposals</td> <td>(10.10)</td> <td>(13.96)</td> <td>(14.46)</td> <td>(14.62)</td> </tr> <tr> <td>Updated Forecast Budget Shortfall as at December 2021</td> <td>9.01</td> <td>25.27</td> <td>24.82</td> <td>25.76</td> </tr> </tbody> </table> <p style="text-align: center;">NB Numbers are rounded</p>		2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	Forecast Budget Shortfall as at February 2021	22.52	27.31	26.57	26.57	New Commitments	4.93	4.53	4.44	4.50	Council Tax and Business Rates	(13.38)	(6.82)	(6.79)	(11.58)	Use of Reserves	(5.41)				Inflation		2.51	2.52	7.62	Budget Pressures	10.44	11.70	12.54	13.27	Draft Savings Proposals	(10.10)	(13.96)	(14.46)	(14.62)	Updated Forecast Budget Shortfall as at December 2021	9.01	25.27	24.82	25.76
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37.	<p>The budget forecast update report on 20 December 2021 showed a shortfall of £9.01M for 2022/23 and a budget gap of around £25M a year for the remainder of the medium term. However, at the time the report was published the provisional local government finance for 2022/23 had not been announced and measures to address the budget shortfalls were still being pursued.</p> <p>A full update of the Medium Term Financial Strategy is provided as part of this report (Annex 1.1) and the following sections provide an update on the Council's resources, together with updated budget proposals and the outlook over the medium term.</p>																																													

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

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

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



Executive Commitments

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

51. Table 2 – Summary of Executive Commitments

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

Numbers are rounded

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

Budget Pressures

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

54.	<p>Table 3 – Summary of Budget Pressures</p> <table border="1"> <thead> <tr> <th>Key Theme</th> <th>2022/23 £M</th> <th>2023/24 £M</th> <th>2024/25 £M</th> <th>2025/26 £M</th> </tr> </thead> <tbody> <tr> <td>Growth</td> <td>1.28</td> <td>1.22</td> <td>1.10</td> <td>1.05</td> </tr> <tr> <td>Wellbeing</td> <td>11.43</td> <td>14.32</td> <td>14.80</td> <td>15.51</td> </tr> <tr> <td>Communities, Culture & Heritage</td> <td>0.10</td> <td>0.10</td> <td>0.10</td> <td>0.10</td> </tr> <tr> <td>Our Greener City</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td>A council that works for and with you</td> <td>2.03</td> <td>1.37</td> <td>1.35</td> <td>1.35</td> </tr> <tr> <td>Centrally held budgets and funding</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td>Total Budget Pressures</td> <td>14.83</td> <td>17.01</td> <td>17.35</td> <td>18.01</td> </tr> <tr> <td>Less: Use of Medium Term Financial Risk Reserve to meet Social Care pressures</td> <td>(3.71)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total Net Budget Pressures</td> <td>11.12</td> <td>17.01</td> <td>17.35</td> <td>18.01</td> </tr> </tbody> </table> <p style="text-align: center;">Numbers are rounded</p>	Key Theme	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	Growth	1.28	1.22	1.10	1.05	Wellbeing	11.43	14.32	14.80	15.51	Communities, Culture & Heritage	0.10	0.10	0.10	0.10	Our Greener City	0.00	0.00	0.00	0.00	A council that works for and with you	2.03	1.37	1.35	1.35	Centrally held budgets and funding	0.00	0.00	0.00	0.00	Total Budget Pressures	14.83	17.01	17.35	18.01	Less: Use of Medium Term Financial Risk Reserve to meet Social Care pressures	(3.71)				Total Net Budget Pressures	11.12	17.01	17.35	18.01
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55.	Details of the final budget pressures are provided in Annex 1.6.																																																		
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56.	<p>Draft savings proposals totalling £10.1M for 2022/23, rising to £14.6M in 2025/26, were published as part of the budget forecast update to Cabinet in December 2021. Full details can be found in appendix 4 to that report which is available as agenda item 10 at:</p> <p>Agenda for Cabinet on Monday, 20th December, 2021, 6.00 pm Southampton City Council</p>																																																		
57.	The Council’s approach continues to be on driving through efficiencies and cost reductions, together with delivering savings through income generation and growth with a view to protecting front line services and Council priorities.																																																		
58.	Further work has been on-going to refine the savings proposals published in December 2021. Table 4 below gives a summary of the updated position, with details of the final savings proposals included at Annex 1.7.																																																		
59.	<p>Table 4 – Summary of Savings Proposals</p> <table border="1"> <thead> <tr> <th>Key Theme</th> <th>2022/23 £M</th> <th>2023/24 £M</th> <th>2024/25 £M</th> <th>2025/26 £M</th> </tr> </thead> <tbody> <tr> <td>Growth</td> <td>(1.67)</td> <td>(1.41)</td> <td>(1.75)</td> <td>(1.82)</td> </tr> <tr> <td>Wellbeing</td> <td>(5.13)</td> <td>(16.42)</td> <td>(17.99)</td> <td>(18.49)</td> </tr> <tr> <td>Communities, Culture & Heritage</td> <td>(0.64)</td> <td>(0.64)</td> <td>(0.64)</td> <td>(0.64)</td> </tr> <tr> <td>Our Greener City</td> <td>(0.32)</td> <td>(0.47)</td> <td>(0.47)</td> <td>(0.47)</td> </tr> <tr> <td>A council that works for and with you</td> <td>(1.32)</td> <td>(1.32)</td> <td>(1.32)</td> <td>(1.32)</td> </tr> <tr> <td>Centrally held budgets and funding</td> <td>(1.78)</td> <td>(1.05)</td> <td>(0.78)</td> <td>(0.78)</td> </tr> <tr> <td>Total Savings</td> <td>(10.87)</td> <td>(21.31)</td> <td>(22.96)</td> <td>(23.52)</td> </tr> </tbody> </table> <p style="text-align: center;">Numbers are rounded</p>	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)										
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60.	It should be noted that the proposed saving relating to St Mary’s Leisure Centre is subject to the outcome of a consultation on the proposal and a final decision. If the proposal does not proceed it will be removed from the budget and the relevant Executive Director will discuss a way forward with the Executive Director for Finance, Commercialisation & S151 Officer.																																																		
	<u>Other MTFS Amendments</u>																																																		
61.	<u>Inflation</u>																																																		

	<p>£1.8M has been allocated from the central inflationary pressures budget for 2022/23 for inflation on contracts. No allocation has been made for 2022/23 pay awards, pending settlement of the 2021/22 pay awards and further details for 2022/23, however £2.7M (2.5 per cent) has been allowed for within the budget. £1.1M has been earmarked for the 1.25 per cent increase in the employer's national insurance contribution rate from 2022/23 - the Health and Social Care Levy announced in September 2021.</p> <p>The central inflationary pressures budget has been topped-up by £3.0M in 2022/23, rising to £12.2M in 2025/26, to provide sufficient cover for these allocations and likely calls on the budget.</p>												
	<u>Capital Asset Management</u>												
62.	Capital financing costs are met from the Capital Asset Management budget held centrally within the Council. Estimates have been updated in line with the latest capital programme detailed in Appendix 2 of this report. Further details regarding capital financing assumptions are included in the Treasury Management Strategy and Prudential Limits report to Governance Committee on 14 February 2022.												
63.	Interest rate forecasts will continue to be monitored and their impact on major projects and the capital programme kept under scrutiny.												
	<u>Balances and Earmarked Reserves</u>												
64.	The current General Fund Balance of £10.1M is considered to be appropriate to cover for unforeseen events and financial risks not provided for elsewhere.												
65.	A review of useable reserves has been undertaken as part of the budget planning process and an element of the uncommitted amount has been factored in to the MTFS to help offset the budget shortfall in 2022/23. Earmarked reserves (excluding schools' balances) are projected to reduce from £130.38M (including £35.04M revenue grants carried forward mainly relating to COVID-19) at the start of 2021/22 to £45.77M by the end of 2025/26. These figures exclude a deficit on the Dedicated Schools Grant being held in a separate account in accordance with regulations, which is forecast to be £9.8M at the end of 2021/22. If the deficit is not reduced by the end of 2022/23 or if the period for which it is to be held separately is not extended, the deficit will fall to be included within earmarked reserves from 2023/24.												
66.	Table 5 summarises the net use of corporate reserves included within the 2022/23 budget proposals. This includes the net contribution from reserves agreed in previous years.												
67.	<p><u>Table 5 – Use of Corporate Reserves</u></p> <table border="1"> <thead> <tr> <th></th> <th style="text-align: right;">2022/23 £M</th> </tr> </thead> <tbody> <tr> <td>Net contribution from reserves agreed in previous years</td> <td style="text-align: right;">(4.80)</td> </tr> <tr> <td>New net use of reserves (excluding Collection Fund timing differences)</td> <td style="text-align: right;">(13.41)</td> </tr> <tr> <td>New net use of reserves for Collection Fund timing differences</td> <td style="text-align: right;">(13.66)</td> </tr> <tr> <td>Sub-total new net contribution from reserves</td> <td style="text-align: right;">(27.07)</td> </tr> <tr> <td>Net contribution from reserves</td> <td style="text-align: right;">(31.87)</td> </tr> </tbody> </table> <p style="text-align: center;">Numbers are rounded</p>		2022/23 £M	Net contribution from reserves agreed in previous years	(4.80)	New net use of reserves (excluding Collection Fund timing differences)	(13.41)	New net use of reserves for Collection Fund timing differences	(13.66)	Sub-total new net contribution from reserves	(27.07)	Net contribution from reserves	(31.87)
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Net contribution from reserves	(31.87)												
68.	Further details on the forecast reserves balances and use of corporate reserves are provided in section 1.5 of the Medium Term Financial Strategy (Annex 1.1).												

<u>Updated Medium Term Financial Strategy</u>					
69.	Table 6 below summarises the changes since the position reported to Cabinet in December 2021. Further details of the movements in the budget shortfall since December, including details of additional pressures and savings, are provided in Annex 1.8.				
70.	<u>Table 6 – Summary of Changes</u>				
		2022/23	2023/24	2024/25	2025/26
		£M	£M	£M	£M
	Budget Shortfall – December 2021	9.01	25.27	24.82	25.76
	Budget pressures	4.40	5.31	4.81	4.75
	Savings proposals	(0.77)	(7.35)	(8.50)	(8.90)
	Inflation estimates	2.98	4.33	4.45	4.56
	Use of reserves – Collection Fund timing differences	(16.03)			
	Use of reserves – remainder of £8.6M 2020/21 outturn surplus	(6.79)			
	Use of reserves - other	(0.40)			
	Government grants	(7.90)	(3.87)	(3.88)	(3.79)
	Council tax and business rates estimates	15.50	(0.25)	(0.24)	(0.44)
	Amended Budget Shortfall – February 2022	0.00	23.43	21.46	21.95
	Numbers are rounded				
71.	The updated position over the period of the MTFS shows forecast net expenditure being around £23.4M a year more than the forecast funding available in 2023/24 and around £22M thereafter, as set out in table 7.				
72.	<u>Table 7 – Forecast Budget Shortfall</u>				
		2022/23	2023/24	2024/25	2025/26
		£M	£M	£M	£M
	Net Expenditure	193.05	225.10	228.63	233.95
	Funding	(193.05)	(201.67)	(207.17)	(212.00)
	Forecast Budget Shortfall	0.00	23.43	21.46	21.95
73.	<p>For 2023/24 onwards, the medium term forecast does not include anything for government reward for housing growth, Revenue Support Grant is assumed to be a flat cash allocation and the one-off 2022/23 Services Grant is assumed not to be replaced pending any changes to the local government finance system. If any of these assumptions are more favourable than anticipated this would reduce the budget shortfall. Conversely, there are downside risks to the medium term forecast as set out in section 1.9 of the Medium Term Financial Strategy (Annex 1.1).</p> <p>No allowance has been made for any new use of uncommitted reserves to help offset budget shortfalls in future years, although any such use would be one-off in nature and further action would need to be taken to replace one-off reserves funding with sustainable measures. Reserves are also important in providing cover for risks and for facilitating service transformation.</p>				
74.	Annex 1.1(a) to the Medium Term Financial Strategy (Annex 1.1) sets out the 2022/23 budget and projections for 2023/24, 2024/25 and 2025/26 by key themes, centrally held budgets and sources of funding.				

75.	The Council will continue to keep the MTFS under review, given the high degree of uncertainty surrounding any potential impacts from the ongoing pandemic, Brexit and possible service pressures.
Summary and Outlook	
76.	<p>The 2022/23 budget addresses the budget pressures the council faces, protecting services and investing in line with the agreed Corporate Plan priorities. The 2022/23 budget includes:</p> <ul style="list-style-type: none"> • £14.8M of additional investment on service pressures and investment to ensure services can continue to meet demand, improve outcomes and are better placed to manage demand in the future. • £4.9M for executive commitments to support priorities as set out in the Corporate Plan. • £10.9M of savings measures to balance the budget. • Draws on reserves to support the budget. Plans previously agreed provided for a £4.8M use of the Medium Term Financial Risk Reserve (MTFR). In addition to that, £8.5M of surplus arising from an underspend in 2020/21 has been applied to balancing the budget via the MTFR reserve. There is a remaining draw down from the MTFR reserve of around £1.7M, which reflects a number of factors in support of the budget, the main element of which is sums carried forward from earlier years. • Delivers a council tax freeze, which represents a saving of just under £50 for residents in a typical Band D property.
77.	<p>The budget is only balanced for one year, with forecasts showing a £23.4M shortfall for 2023/24, and a similar level shortfall thereafter. This report has noted the continued uncertainty on future costs, arising from the pandemic but also from other factors such as rising demand and uncertainty over inflationary pressures and pay award costs. Funding also remains uncertain, with a one-year only settlement from Government, changes to the funding system pending from Government and potential longer term effects from the pandemic on funding from business rates and council tax. There are also opportunities arising from developments in the city and the proposed Solent Freeport.</p> <p>However, the budget shortfall of £23.4M represent a major gap and will require considerable work and focus during the rest of 2022 to achieve a balanced budget for 2023/24. Whilst the council is not alone in facing this size of financial challenges, or the risks outlined in this report, it does not lessen the scale of the challenge to be met. It is anticipated that there will be a mix of approaches across the MTFS timeframe, with different lead in times, for actions spanning a number of years to ensure this challenge can be met.</p>
Annexes	
1.	Medium Term Financial Strategy
2.	2022/23 Council Tax Calculation
3.	2022/23 Council Tax Collection Fund Estimates
4.	Government Grants
5.	Executive Commitments
6.	Budget Pressures

7.	Savings Proposals
8.	Movements in Budget Shortfall