

# **Southampton City Council**

# **MEDIUM TERM FINANCIAL**

# **STRATEGY**

2023/24 – 2026/27

# MEDIUM TERM FINANCIAL STRATEGY 2023/24 – 2026/27

## Contents

### Introduction

#### Section 1 Local Financial Forecast

- 1.1 Financial trends
- 1.2 Council resources
- 1.3 Other financial assumptions
- 1.4 Budget pressures, savings and Executive commitments
- 1.5 Balances and earmarked reserves
- 1.6 Forecast medium term financial position
- 1.7 Capital Programme
- 1.8 Housing Revenue Account
- 1.9 Key risks
- 1.10 Managing Budgets and Forecasting

#### Section 2 Context

- 2.1 Strategic context
- 2.2 Policies, plans and other factors
- 2.3 National economic and public expenditure plans

### Conclusion

- ANNEX 1.1(a) General Fund Revenue Account Medium Term Financial Forecast
- ANNEX 1.1 (b) Previously Agreed Budget Changes
- ANNEX 1.1(c) Medium Term Financial Forecast by Service Activity
- ANNEX 1.1(d) General Fund Earmarked Reserves
- ANNEX 1.1(e) Housing Revenue Account Medium Term Financial Forecast
- ANNEX 1.1(f) Financial Management Code

## 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 cost of living crisis 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 organisational goals 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 organisational goals. During the 2023/24 budget process, emphasis has been given to making efficiency savings and generating additional income to help address the budget shortfall the Council faces, to minimise the impact on front line services. Work has also started on a transformation programme to determine a future operating model for the Council which will help to deliver services within the resource envelope available.

Although the Government published an Autumn Statement with spending plans for 2023/24 and 2024/25, and a Local Government Finance Policy Statement covering those 2 years, the Local Government Finance Settlement only provides funding allocations for 2023/24. The Government has deferred consideration of any reforms to the local government finance system to beyond the life of this parliament, meaning 2025/26 would be the earliest any such reforms would apply. Added to this is the uncertainty around the impact of Adult Social Care charging reforms which have been deferred until October 2025, the cost of living crisis and impact of high levels of inflation on the Council's costs and

demand for services, and the continuing legacy 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

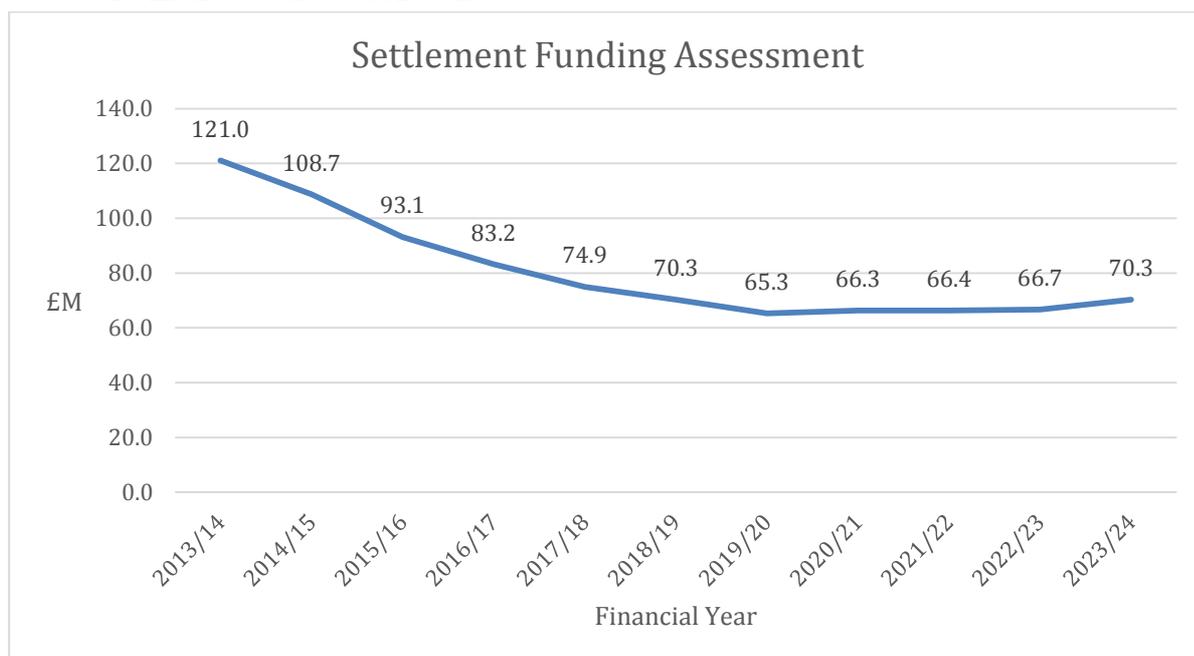
### 1.1 Financial Trends

#### 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 2023/24 there has been an inflationary increase in the SFA, with real-terms additional resources announced in the 2022 Autumn Statement being allocated via specific grants rather than being applied to the SFA. The inflationary uplifts applied since 2020/21 don't go very far in restoring the reductions 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. Council tax charges are assumed to increase by the maximum allowable within the referendum limits. The Council's Core Spending Power for 2023/24 is £230.8M, an increase of £20.7M compared with 2022/23 (9.9%).

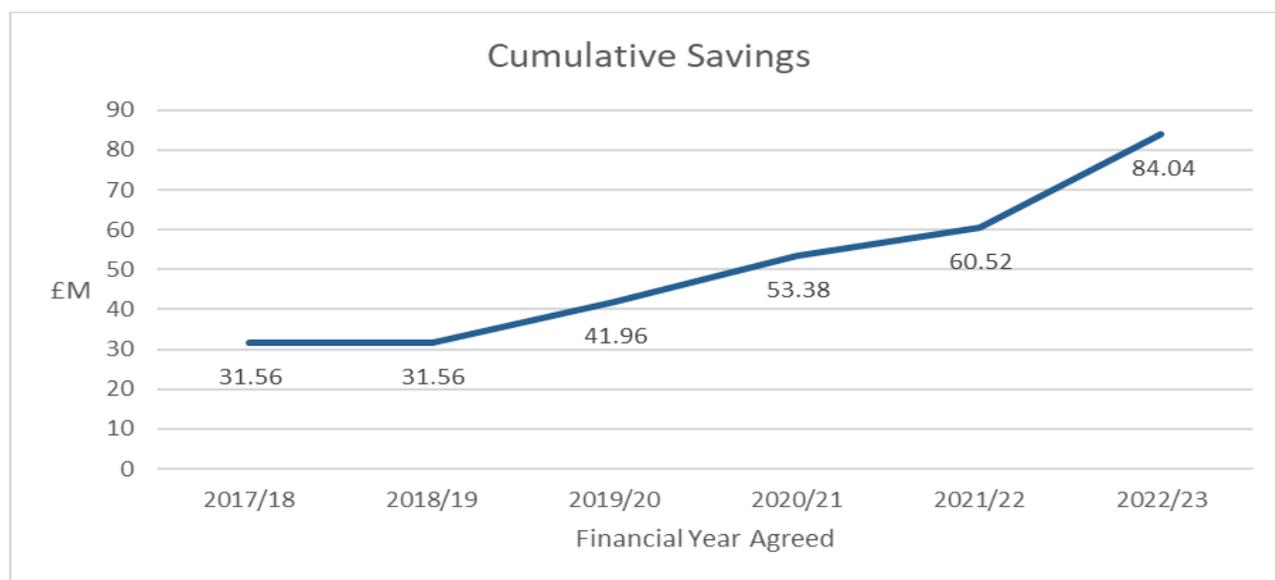
Analysis by the Special Interest Group of Metropolitan Authorities (SIGOMA) using adjusted Core Spending Power data (so that previous years are on a comparable basis to 2023/24) shows that in cash terms the resources available to the Council in 2023/24 are only just back up to the level they were in 2010/11. The 13-year cumulative cash increase since 2010/11 is £7.5M or 2.9%, compared with an England average of 7.5%. In real terms the Council has seen a £69.1M or

23.8% reduction in resources since 2010/11, compared with an England average of 20.4%.

### 1.1.3 Savings History

In response to reduced Government funding and service expenditure pressures, the council has agreed some £84M of General Fund savings over the last 6 years (see following chart), which comes on top of substantial savings since Government austerity measures were introduced.

CHART: SAVINGS HISTORY



Sustaining the level of savings required to achieve a balanced budget is becoming increasingly difficult, particularly in the face of increased cost pressures due to the cost of living crisis and high demand for services. The Council had sought to make savings via delivering efficiency savings and through income generation as far as possible, 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. Estimates of general funding are shown in the Medium Term Financial Forecast at Annex 1.1(a).

TABLE 1 SUMMARY OF KEY FUNDING ASSUMPTIONS

2022/23	Item	2023/24	2024/25	2025/26	2026/27
£1,644.39	Increase in Core Council Tax Charge	2.99%	1.99%	1.99%	1.99%
£186.31	Increase in Adult Social Care Precept	2.00%	0.00%	0.00%	0.00%
66,146	Council Tax Base (No. of Band D equivalents)	67,057	67,474	68,430	69,108
49.9p	Increase in Small Business Rates Multiplier	0.0%	5.4%	3.2%	2.6%
£11.37M	Increase in Revenue Support Grant*	13.3%	5.4%	3.2%	2.6%
£4.63M	Increase in Top Up Grant	15.9%	5.4%	3.2%	2.6%
£0.91M	Reduction in New Homes Bonus	-76.6%	-100.0%	0.0%	0.0%

\* Other specific grants have been rolled into Revenue Support Grant in 2023/24

## 1.2.1 Council Tax and Adult Social Care Precept

In the 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. As set out in Table 1 above, increases are being applied in 2023/24 in line with those referendum limits. The Autumn Statement 2022 indicated that the 3% core and 2% adult social care precept increases would also be available in 2024/25. However, for planning purposes, the working assumption for 2024/25 and future years is a 1.99% increase in the core council tax and no increase in the adult social care precept.

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 and the impact of the cost of living crisis on the number of local council tax support claimants (LCTS). The 2021/22 tax base assumed an increase in the number of LCTS claimants due to the pandemic, however this was not as severe as anticipated, hence there was a 'bounce back' effect in 2022/23, with an increase in the estimated collection rate giving a further boost to the tax base, as shown in the chart below. Part of the increase for 2023/24 is due to the removal of the discount for one month's council tax for landlords of empty and unfurnished properties.

CHART: CHANGE IN COUNCIL TAX BASE

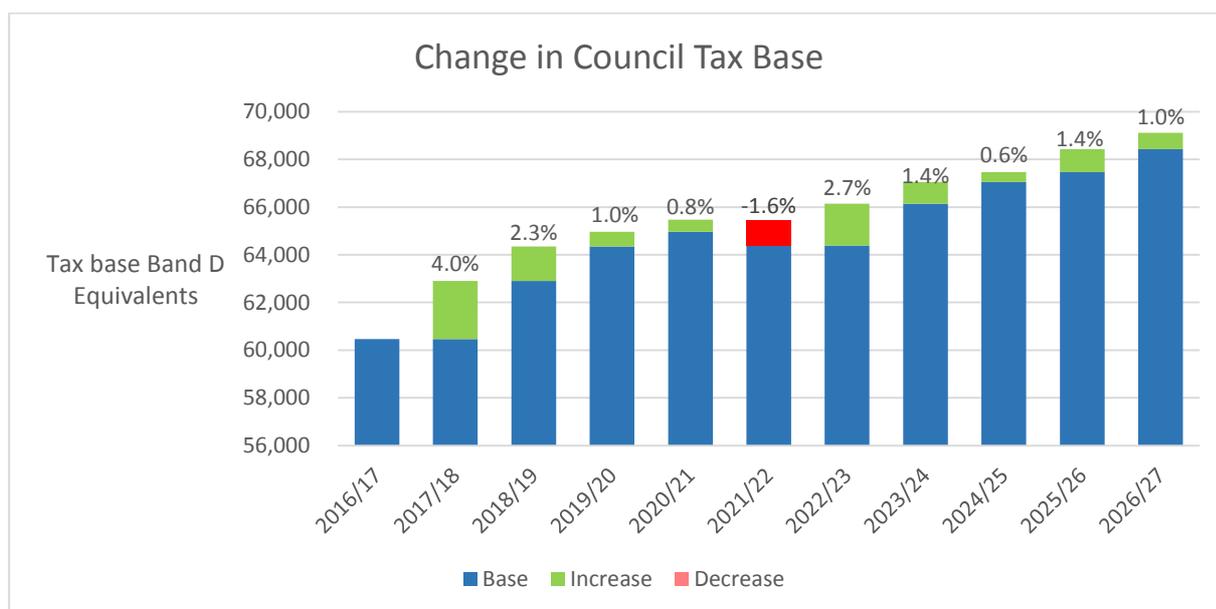


Table 2 below shows the council tax and adult social care precept income that has been included in the medium term financial forecast at Annex 1.1(a).

TABLE 2 COUNCIL TAX INCOME

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M
Council Tax - General Precept	101.07	104.02	107.89	111.43
Council Tax - Adult Social Care Precept	14.70	14.79	15.00	15.15
<b>Total Council Tax Income</b>	<b>115.77</b>	<b>118.81</b>	<b>122.89</b>	<b>126.58</b>

## 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.

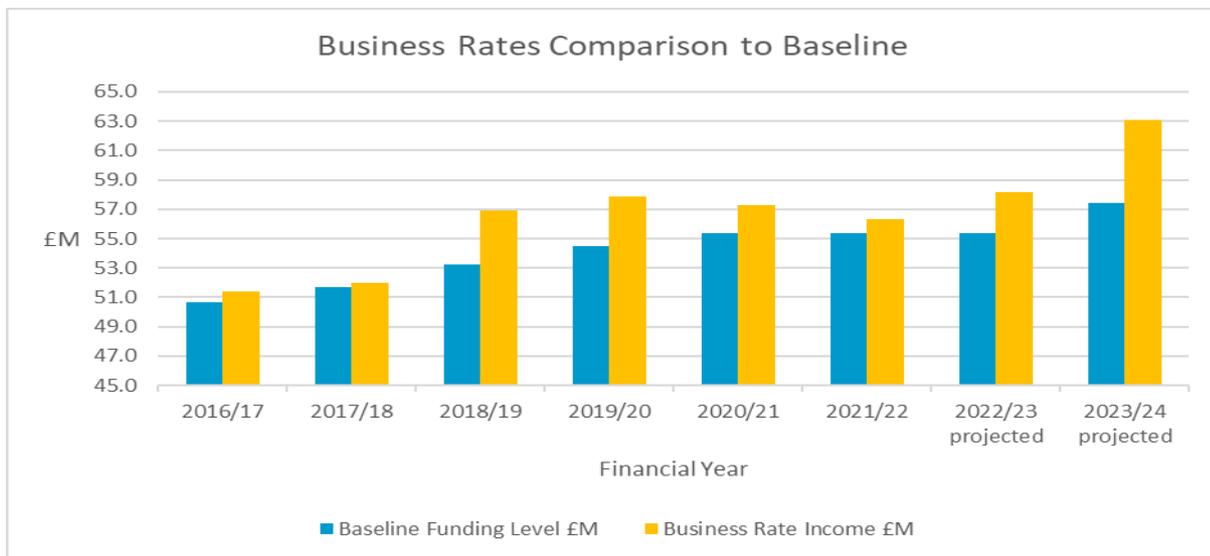
The government has frozen the business rates multiplier in cash terms for the third year running for 2023/24. The MTFS assumes that it will increase with inflation thereafter as set out in Table 1 above.

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. It also includes the impact of reductions in rateable values were known.

Rateable values have been revalued with effect from April 2023 and the Council's Business Rates Top-Up Grant has been adjusted so that, as far as practicably possible, it is no better or worse off as a result of the Revaluation exercise, including for transfers from the local rating list to the Government's central list.

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 2021/22 it was still above the baseline level. The decline in business rates income in those years was mainly due to successful appeals and other changes to rateable values. The increase in projected business rates income for 2023/24 is mainly from expected Government compensation for freezing the multiplier in lieu of an inflationary uplift.

CHART: BUSINESS RATES COMPARISON TO BASELINE



### 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. The Government approved the Solent Freeport in November 2022, for which one of the designated tax sites is in Southampton. The MTFS assumes that any growth in business rates in the designated tax site will 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 few years, the government has applied an inflationary uplift to RSG in the 2023/24 settlement, an increase of £1.15M (10.1%) for the Council. £0.36M of specific grants have also been rolled into RSG in the settlement, the main element being Local Council Tax Admin Support Grant (£0.35M). The MTFs assumes inflationary uplifts in RSG for 2024/25 onwards based on the assumed increase in the business rates multiplier.

#### 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 before now, as the Government consulted on its replacement in early 2021. However, the Government decided to roll over the scheme for yet another year, with one-off allocations for 2023/24. Legacy payments relating to previous years' allocations ended in 2022/23. This grant is being funded via a 'top-slice' of £291M nationally from the resources allocated to local authorities. The Council's allocation for 2023/24 is £0.21M. Consultation on the future of the NHB is expected during 2023.

#### PUBLIC HEALTH GRANT

The Public Health Grant continues to be a ring-fenced grant to local authorities in 2023/24. At the time of writing the local authority allocations for 2023/24 had not been announced. The Council's allocations since 2016/17 are outlined in Table 3 below.

TABLE 3 PUBLIC HEALTH GRANT

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

#### OTHER GRANTS

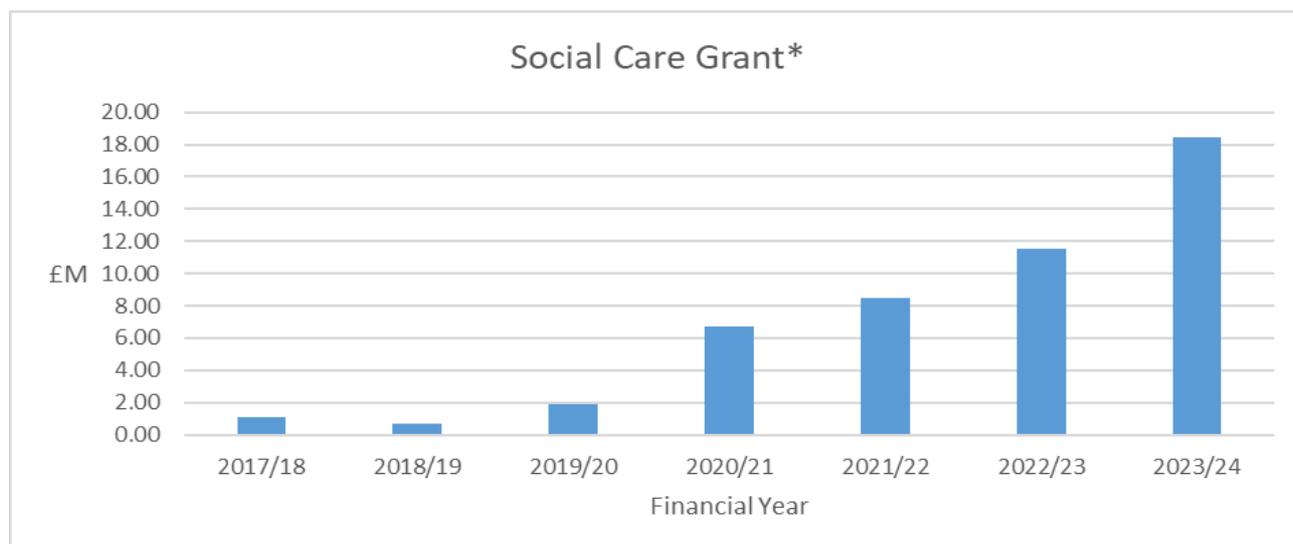
The Council receives a variety of other grants from Government. Ring-fenced grants are recorded as service income and grants which are not ring-fenced to specific services are held centrally.

In the 2022 Autumn Statement the Government announced an extra £1Bn of ring-fenced grant funding for Adult Social Care for 2023/24 (and £1.7Bn for the year after), with £600M of this being allocated through the Better Care Fund (50/50 with the NHS). Allocations to individual local authorities for 2023/24 for the new funding were notified in the Local Government Finance Settlement, with the Council receiving £1.50M of Adult Social Care Discharge Fund (£300M nationally) and £2.60M of ASC Market Sustainability and Improvement Fund (£562M nationally, including the previous £162M Fair Cost of Care Grant). The Improved Better Care Fund grant allocation for 2023/24 is £10.70M, the same as for 2022/23.

A delay to the implementation of the Adult Social Care charging reforms was also announced in the Autumn Statement, with £1.3Bn funding previously set aside being repurposed to increase the un-ringfenced Social Care Grant. The Council's Social Care Grant allocation for 2023/24 is £18.47M, an increase of £6.9M on 2022/23, including £0.4M of Independent Living Fund rolled in. For 2024/25 the MTFs assumes the Council's allocation will increase in line with the national total and it is assumed to continue at that level thereafter. As is seen from the chart below, the Social Care Grant has become an increasingly important source of funding for the Council over recent years and this is a risk area

should funds be distributed differently, reduced or discontinued.

CHART: SOCIAL CARE GRANT



\* Known as Adult Social Care Support Grant in 2017/18 and 2018/19, and Social Care Support Grant in 2019/20

The Services Grant, which was new for 2022/23, has been reduced nationally to £445M, with the Council's share for 2023/24 being £2.24M. Part of the reduction is to fund the inflationary increase in RSG. The MTFs assumes that the Services Grant will continue in future years, however reducing each year in line with the uplift in RSG.

The Lower Tier Services Grant, for which the Council is receiving £0.46M in 2022/23, is being discontinued. The funding is being used to help pay for a 3% Funding Guarantee for local authorities. The Council has not been allocated any Guarantee funding as its increase in Core Spending Power is above the threshold.

The Government announced £100M of Council Tax Support funding alongside the 2023/24 provisional settlement. The Council's share of this funding is £0.50M. This will be used to discount council tax bills for local council tax support claimants by up to £25.

### 1.2.4 Sensitivity to funding assumptions

Table 4 below shows how much the Council's funding would change in 2024/25 if funding assumptions changed by 1%. The figures are provided for 2024/25 as funding for 2023/24 is not subject to variation, being either set in the local government finance settlement or as part of approving the budget for 2023/24.

Table 4 SENSITIVITY TO 1% CHANGE IN FUNDING ASSUMPTIONS

	£M
Core Council Tax Charge/Adult Social Care Precept increase	1.16
Council Tax Base	1.19
Business Rates Multiplier	0.66
Revenue Support Grant	0.13
Top-Up Grant	0.05
Social Care Grant	0.18

## **1.3 OTHER FINANCIAL ASSUMPTIONS**

### **1.3.1 Pay Inflation**

A 4% pay award has been assumed for 2023/24 and 2% thereafter. Budget provision for this is being held centrally until the pay award is settled. 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. Although the local government pay settlement is negotiated separately, pay awards for the wider public sector are likely to have a bearing, along with the current high level of general price inflation.

### **1.3.2 National Insurance - Employer Costs**

The 1.25% increase in employee and employer National Insurance Contributions (Health and Social Care Levy) announced in September 2021 was repealed in November 2022 as part of the then Chancellor of the Exchequer's Growth Plan announced in September 2022. Budget provision for this is being released as a saving.

### **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 Living Wage Foundation's recommended living wage, which is currently £10.90 (set in September 2022 but to be implemented by the Council from 1 April 2023), for payment of its employees, and this rate is higher than the Government's NLW (£10.42 from April 2023).

### **1.3.4 General Inflation**

Assumptions have been made in the forecast about the likely level of general inflation that will apply from April 2023. Allocations have been made to services for 2023/24 contract inflation and provision for future years' contract inflation is being held centrally. There is a risk that should inflation be 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 by 10.5% in the 12 months to December 2022, down from 10.7% in November. It is expected to reduce during 2023 and fall back down to around 3% in 2024.

Inflation assumptions are reviewed each year and a central provision exists to cover contract inflation costs 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 2022 triennial revaluation process. The rate applicable from April 2023 to March 2026 is 16.8%, down from 18.2%, reflecting the decision to use the surplus above a funding level of 105% to lower the contribution rate over the next 3 years. No changes to the rate have been assumed following the next triennial revaluation which will take effect from April 2026.

### **1.3.6 Centrally Held Contingency**

The Council holds a contingency budget to provide cover for potential cost pressures. For 2023/24 £5.2M is held within contingency, which includes an initial estimate of £2M for potential redundancy costs.

### **1.3.7 Sensitivity to Inflation Assumptions**

Table 5 below shows the additional cost to the Council in 2023/24 if the pay award or general contract inflation is 1% higher than assumed in the MTFS.

Table 5 SENSITIVITY TO 1% CHANGE IN INFLATION ASSUMPTIONS

	£M
Pay Award	1.23
General Contract Inflation (excluding Social Care contracts)	0.40

## 1.4 BUDGET PRESSURES, SAVINGS AND EXECUTIVE COMMITMENTS

### 1.4.1 Previously Agreed Budget Changes

The MTFS approved by Council each year includes the impact of budget pressures, savings and Executive commitments for the 4 years of the MTFS. For example, the MTFS approved in February 2022 included budget changes for the years 2023/24 to 2025/26, as well as those for 2022/23. These previously agreed changes form part of the starting approved budget for the year (as shown in Annex 1.1(a)) before any further changes agreed in the current budget round. Table 6 summarises the previously agreed budget changes for 2023/24 to 2026/27 as approved in February 2020, 2021 and 2022. A detailed schedule of the previously agreed budget changes is provided at Annex 1.1(b).

TABLE 6 SUMMARY OF PREVIOUSLY AGREED BUDGET CHANGES

Organisational Goal	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M
<b>Budget Pressures</b>				
A prosperous city	0.53	0.51	0.51	0.51
A proud and resilient city	2.74	2.64	2.59	2.59
A successful, sustainable organisation	15.20	14.79	14.79	14.79
Strong foundations for life	45.70	45.98	46.69	46.69
Centrally held budgets and funding	(8.78)	(8.78)	(8.78)	(8.78)
<b>Total Previously Agreed Budget Pressures</b>	<b>55.38</b>	<b>55.14</b>	<b>55.80</b>	<b>55.80</b>
<b>Savings</b>				
A prosperous city	(1.51)	(1.49)	(1.49)	(1.49)
A proud and resilient city	(2.04)	(2.40)	(2.47)	(2.47)
A successful, sustainable organisation	(17.48)	(17.48)	(17.48)	(17.48)
Strong foundations for life	(21.79)	(23.36)	(23.86)	(23.86)
Centrally held budgets and funding	2.94	3.21	3.21	3.21
<b>Total Previously Agreed Savings</b>	<b>(39.88)</b>	<b>(41.52)</b>	<b>(42.09)</b>	<b>(42.09)</b>
<b>Executive Commitments</b>				
A prosperous city	1.17	1.07	1.07	1.07
A proud and resilient city	1.78	1.78	1.78	1.78
A successful, sustainable organisation	0.53	0.48	0.48	0.48
Strong foundations for life	0.40	0.40	0.40	0.40
Centrally held budgets and funding	6.75	6.81	6.88	6.88
<b>Total Previously Agreed Executive Commitments</b>	<b>10.63</b>	<b>10.54</b>	<b>10.60</b>	<b>10.60</b>
<b>TOTAL PREVIOUSLY AGREED BUDGET CHANGES</b>	<b>26.13</b>	<b>24.16</b>	<b>24.32</b>	<b>24.32</b>

Numbers are rounded

## 1.4.2 Budget Pressures

Table 7 summarises the new 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 (including previously agreed savings no longer being achievable), as well as pressures due to high energy costs, higher interest rates and other effects of the cost of living crisis. Many of these pressures are being experienced by councils nationwide.

TABLE 7 SUMMARY OF BUDGET PRESSURES

<b>Organisational Goal</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
A prosperous city	1.19	1.67	1.23	1.23
A proud and resilient city	3.58	3.72	3.75	3.78
A successful, sustainable organisation	3.57	3.18	2.93	3.14
Strong foundations for life	18.09	14.43	13.83	13.83
Centrally held budgets and funding	1.80	2.24	3.70	4.54
<b>Total Budget Pressures</b>	<b>28.22</b>	<b>25.24</b>	<b>25.44</b>	<b>26.52</b>

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 8 summarises the savings that have been included in the medium term financial forecast in Annex 1.1(a).

TABLE 8 SUMMARY OF SAVINGS

<b>Organisational Goal</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
A prosperous city	(3.03)	(1.71)	(1.71)	(1.71)
A proud and resilient city	(0.99)	(1.00)	(0.97)	(0.94)
A successful, sustainable organisation	(5.07)	(5.38)	(5.97)	(6.16)
Strong foundations for life	(2.48)	(2.98)	(2.48)	(2.48)
Centrally held budgets and funding	(10.46)	(8.11)	(8.06)	(7.98)
<b>Total Savings</b>	<b>(22.03)</b>	<b>(19.17)</b>	<b>(19.19)</b>	<b>(19.27)</b>

Numbers are rounded

Some of the proposed savings relating to 2024/25 onwards are subject to further consultation.

## 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 cost of living crisis, including energy costs, 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 £96.19M at the end of 2021/22, which included revenue grants carried forward totalling £20.93M predominantly relating to COVID-19 which are expected to be used in 2022/23. By the end of 2022/23 the forecast balance on reserves ((excluding schools' balances) is £42.61M. Annex 1.1(d) shows the forecast future position for reserves following review of their use and identification of what is available. The proposed budget strategy involves using a significant proportion of the available reserves to meet budget pressures in 2023/24. This severely reduces the amount available to provide cover for financial risks or to help with other costs in future years. Table 9 below shows the planned use of corporate reserves within the MTFS.

TABLE 9 FORECAST USE OF CORPORATE EARMARKED RESERVES

	2023/24	2024/25	2025/26	2026/27
	£M	£M	£M	£M
<b>MTFS as at February 2022</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Net use of Medium Term Financial Risk Reserve (MTFR) to balance 2023/24 budget	(20.39)			
Replenishment of MTFR Reserve		2.00	2.00	2.00
Initial estimate of call on MTFR Reserve to meet potential redundancy costs	(2.00)	(2.00)		
Use of Portfolio Carry Forward Reserve	(1.34)			
Sub-Total: New net use of reserves (excluding Collection Fund timing differences)	(23.73)	0.00	2.00	2.00
Government grant for additional 2022/23 business rates reliefs carried forward	(1.32)			
Repayment of over-estimate of Government grant for 2021/22 business rates reliefs	4.43			
Sub-Total: New net use of reserves for Collection Fund timing differences	3.12	0.00	0.00	0.00
<b>MTFS as at February 2023</b>	<b>(20.62)</b>	<b>0.00</b>	<b>2.00</b>	<b>2.00</b>

Numbers are rounded

Reserve use and retention is an important part of the medium term financial strategy. After applying a significant proportion of the available reserves to balance the 2023/24 budget and providing cover for potential redundancy costs, it is estimated there will only be £10.31M uncommitted within the MTFR Reserve at the end of 2023/24. This is considered inadequate to provide cover for risks and other potential calls on the reserve and a contribution of £2M a year from 2024/25 onwards has been assumed within the MTFS to help replenish the reserve. Table 10 below shows the forecast General Fund earmarked reserves (excluding schools' balances) at the end of each financial year of the MTFS. See paragraphs 20 to 45 of the main report on reserves in the context of the S151 view of their adequacy.

TABLE 10 GENERAL FUND EARMARKED RESERVES

	2022/23	2023/24	2024/25	2025/26	2026/27
	£M	£M	£M	£M	£M
Total earmarked reserves (excluding schools' balances)	42.61	20.65	20.70	22.73	25.72

The forecast balance at the end of 2022/23 includes a net shortfall of £3.12M as shown in Table 9 above for government grants relating to timing differences between accounting for grant income and the corresponding Collection Fund surplus/deficit balance in the General Fund. Excluding this net deficit due to timing differences, the non-school earmarked revenue reserves are forecast to be £45.73M at 31 March 2023.

The earmarked reserves forecast excludes a £10.24M 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 initially applied until March 2023, however have recently been extend to the end of 2025/26, so if the DSG position does not improve within that time period or if the period to which the regulations apply is not extended further, the £10.24M deficit will fall to be included within General Fund earmarked reserves from 2026/27.

The level of reserves will continue to be kept under review as part of the budget setting and final accounts process.

## 1.6 FORECAST FINANCIAL POSITION 2023/24 – 2026/27

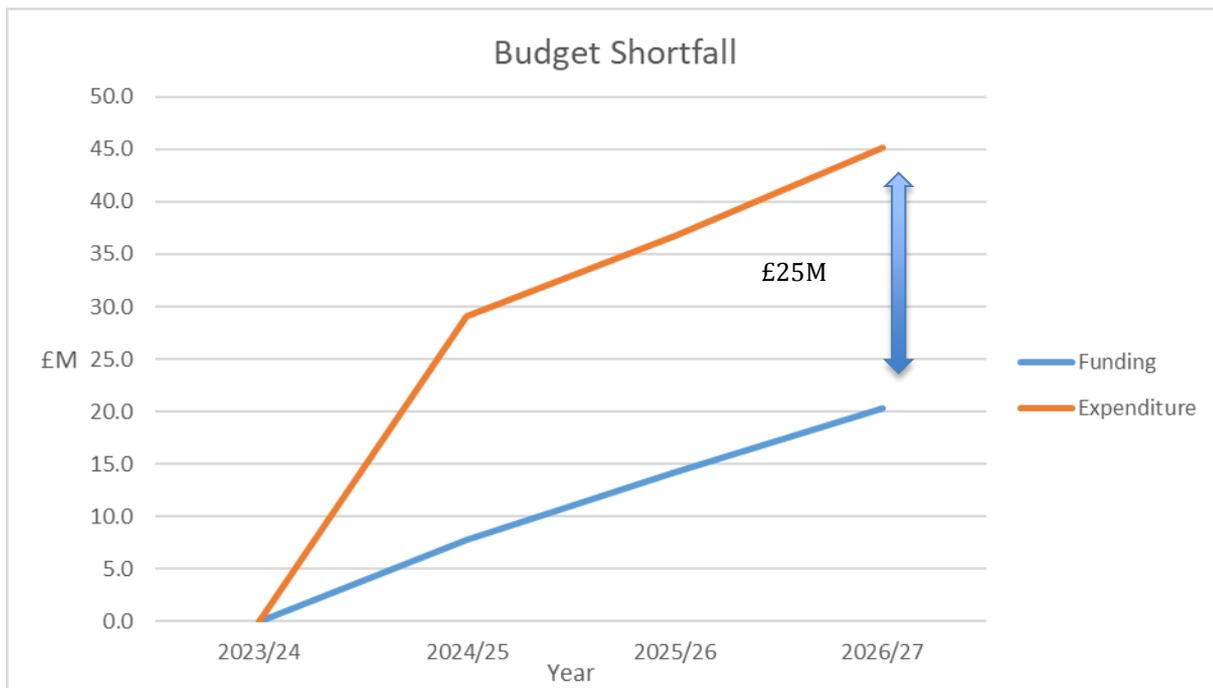
The Council's current forecast financial position is detailed below and includes the implications of the local government finance settlement. It will be reviewed each year of budget setting to reflect any new pressures, changes in funding assumptions and any revision to the Council's Corporate Plan.

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 2026/27 as at February 2023.

Table 11 below shows the current overall position, with a summary by organisational goal being included in Annex 1.1(a) to the MTFs and detail by service activity in Annex 1.1(c). This shows the Council is required to achieve annual savings of around £21M from 2024/25, rising to £25M by 2026/27. Reserves are being used on a one-off basis to balance the budget in 2023/24, however there is a significant budget shortfall to address over the medium term and no uncommitted reserves available to help with this. Cost pressures, particularly within demand-led services, that were already being faced by the Council have been exacerbated by high levels of inflation, increased pay costs and high energy prices. The MTFs already includes additional funding for 2024/25 announced in the November 2022 Autumn Statement, so there is no expectation of further new government funding in that or later years.

TABLE 11 FORECAST BUDGET SHORTFALL

	2023/24	2024/25	2025/26	2026/27
	£M	£M	£M	£M
Net Expenditure	221.45	250.50	258.26	266.58
Funding	(221.45)	(229.28)	(235.70)	(241.79)
<b>Forecast Budget Shortfall</b>	<b>0.00</b>	<b>21.22</b>	<b>22.56</b>	<b>24.79</b>



For 2024/25 onwards, the medium term forecast does not include anything for government reward for housing growth and council tax is only assumed to increase by 1.99% a year. If either of these assumptions is more favourable than anticipated this would reduce the budget shortfall. Conversely, there are numerous downside risks to the medium term forecast as set out in section 1.9.

Corporate reserves are being depleted to meet the forecast 2022/23 in-year deficit and balance the budget in 2023/24, therefore there are no available reserves to help offset budget shortfalls 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 2023. The programme has been reviewed and reprofiled in light of the economic environment (increasing inflation and interest rates) and changing priorities. The proposed Capital Programme for 2022/23 to 2027/28 totals £659.55M and includes £367.41M for the General Fund and £292.24M for the HRA. The General Fund Capital Programme includes the following major commitments:

- £10.2M for flood alleviation schemes
- £193.8M for highways and transport schemes
- £68.7M for schools and other education projects
- £30.0M 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.

## 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 capital budget proposals for 2023/24 have been maintained within the existing budget framework, to maintain affordability within the context of increasing borrowing costs and rental caps. The Council's stated priority for new building is to work in partnership with other Registered Providers. However, in-house delivery of new homes has been committed to plots 2, 9, and 10 Townhill Park, and this is reflected in capital spending proposals.
- 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 £1.92 Bn (including inflation adjustment) is set aside for existing 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, however, It is recommended in the report that the minimum balance be reviewed In light of increased inflationary risk.

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 increased in line with prevailing inflation data in 2020/21 and 2021/22. The Council agreed to freeze rent for 2022/23. 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 two years, subject to a 7% rent cap announced in the November 2022 Autumn Statement for 2023/24. The budget proposals recommend an inflationary Increase of 9% in service charges for 2023/24.

## 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:

- Changes in the economy
- Unmanaged service pressures and increases in demand
- Level of future pay awards and general inflation assumptions
- Impact of National Living Wage
- Non achievement of savings
- Projected income levels from fees & charges
- 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
- 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
- Adequacy of contingencies and reserves in any one period
- Treasury Management and interest rate changes
- 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
- The legacy impact of the COVID-19 pandemic
- Ending of the statutory override for the Dedicated Schools Grant deficit in 2025/26

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 2022 Autumn Statement covered financial years 2023/24 and 2024/25, however the local government finance settlement is only for 1 year. Changes to the local government finance system have been deferred until at least the next parliament and adult social care charging reforms have been delayed for 2 years. The impact of any positive or negative change to our future funding as a result of any such changes and sufficiency of funding for the adult social care reforms 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 actively managed so that their impact is minimised or can be contained within 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(f).

## 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 Council Corporate Plan 2022-2030

The MTFS is framed by the council's corporate plan which sets out our direction for the next eight years and shows how the council will play its part in fulfilling Southampton's huge potential. The plan commits to creating a place where people want to live, work, study, visit and enjoy. This will be achieved through continuing to work with partners across the city and using evidence and experience to make intelligent decisions. The plan outlines four goals and the things both the council and others in the city are doing to achieve them. There is a strong recognition of the importance of the work of other organisations the council works with in delivering a city of opportunity. The four goals set out in the plan are:



The plan will be reviewed and updated after two years and monitored through cabinet member briefings. It will be delivered through implementation plans through service business plans, strategies and where appropriate, specific project plans.

#### 2.1.2 Southampton City Strategy 2015-2025

The City Strategy 2015-2025 continues to drive a vision of creating a city of opportunity where everyone thrives alongside a goal of prosperity for all. The strategy was developed in partnership with 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.

#### 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.

#### PEOPLE STRATEGY

The People Strategy sets out the aim of creating an organisation where people can be the best of themselves, grow and do their finest work, making Southampton a city of opportunity. The priority outcomes delivered by the People Strategy will be:

- We get the right people in;
- We have the right people as managers;
- Employees are paid, rewarded and recognised in the best ways;
- People are kept engaged and always improve;
- All employees add value and take ownership.

### **2.1.4 Key Financial Strategies**

#### CAPITAL STRATEGY

The Capital Strategy provides an overview of the Council's Capital Programme, Treasury Strategy, Investment Strategy, and Minimum Revenue Provision (MRP) Strategy. 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.

#### FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY

This sets out the Council's strategy for using capital receipts to fund transformation expenditure. It is a requirement to have and maintain this strategy in order to make use of this flexibility to finance revenue costs from capital resources.

#### TREASURY MANAGEMENT STRATEGY

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Executive Director for Corporate Services 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 the 2021 ONS Census. This puts the total people resident in Southampton at 248,922. This is an increase of 5.1% from the last census in 2011. Southampton's population is predicted to rise to 270,800 people in 2043.

Some key headlines from the 2021 Census show that:

- Southampton has 102,291 households, of which 33,711 are one person households (increasing by +1.4% since 2011). Lone parent households have increased from 10.2% of households in 2011 to 11.0% in 2021.
- The population aged under 5 years of age decreased by 10.5% and the population aged 5 to 14 increased by 20.9% compared to 2011. Additionally, the number of people aged 65 to 84 increased by 13.7% and people aged 85 and over decreased by 2% compared to the 2011 Census data.
- Around 1 in 4 Southampton residents (60,099) were born outside the UK (compared to 1 in 6 nationally). This is an increase of 44.3% from 2011, reflecting how much Southampton attracts people from elsewhere, such as students and migrant workers.
- Over half (52.8%) of the 60,099 residents in Southampton who were born outside the UK, arrived in the city over the last decade (since 2011). The majority were of working age when arriving in the UK, with the greatest proportions aged between 25 to 44 years (39.1%) and 18 to 24 years (28.7%).
- About 6 out of 7 people (aged 3+) in Southampton (84.6%) have English as their main language, which is slightly lower than in the last Census (88.2%). For just over 37,000 residents (15.4%), English is not their main language. Of these, 5,398 (14.6%) cannot speak English well and 761 cannot speak English at all. The most commonly spoken languages in Southampton (other than English) are Polish (4.3%), Romanian (1.3%) and Chinese (0.9%).
- Southampton is getting more culturally diverse, with 68.1% of residents coming from a White British background, a decrease of 7.9% since Census 2011.
- Among the city's population, 43.4% report having no religion, 40.1% report to be Christian and 5.6% report to be Muslim.
- There are 6,361 UK veterans in the city (4,770 UK armed forces veterans, 1,346 UK reserve armed forces and 245 veterans serving in both).

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**

### **COST OF LIVING**

Since late 2021, there has been a decline in 'real' income (adjusted for inflation) experienced in the UK which is referred to as the 'cost of living crisis'. A sharp increase in inflation has been the primary driver for this (increasing from 2% in July 2021 to 10.5% in December 2022 and a peak of 11.1% in October 2022), accompanied by wage growth which has not kept pace with inflation. Tax increases have also exacerbated the issue. Rising energy and fuel costs, the war in Ukraine, Brexit and the COVID-19 pandemic are some of the main factors that are attributed to increasing inflation and living costs.

Although the cost of living affects all residents, it is expected that more deprived households are experiencing poorer outcomes. Southampton City Council recognises that lower income households are also impacted by other associated challenges such as poor access to transport, variations in food prices across the city, community centres struggling to meet costs of increased bills, reduced charitable giving and increased volunteer costs. A Cost of Living Operational Group is coordinating activity across the council and ensuring those most in need are targeted with messaging around available support. National government has provided cost of living payments to all households and additional funds to those most in need as well as pensioners and those in receipt of disability benefits. While the wholesale price of energy is forecast to fall in the second quarter of 2023 which could ease energy prices and in turn inflation, there are recessionary pressures which could result in households experiencing cost of living pressures. This will continue to impact on residents and the support the council provides. This includes debt management advice, warm spaces in libraries and other public areas, support for families through schools and children's centres and the distribution of support through the Household Support Fund. This activity will adapt to the need within the city which will continue to be monitored as the challenges facing residents evolve.

### **HOMES FOR UKRAINE**

Following Russia's invasion of Ukraine on 24 February 2022, the UK Government launched the Homes for Ukraine Scheme. This launched on 14 March 2022 with UK households encouraged to sponsor Ukrainian guests to be hosted in their homes initially for six months with guests granted a three-year visa. Hosts receive a monthly payment while hosting Ukrainian guests. The scheme provided local authorities with funding for each Ukrainian guest and were required to set up systems at pace to support arriving guests and hosts resident in their area. In January 2023 Southampton had 89 households supporting 180 guests who started to arrive in March 2022. 16 guests have returned to Ukraine, 28 have moved into private accommodation and 10 into temporary accommodation. Over 100,000 Ukrainian guests have arrived in the UK since the scheme was launched.

On 14 December 2022 the government announced measures to update the Homes for Ukraine Scheme. Thank-you payments of £350 to hosts have been increased to £500 from January 2023 and extended for up to two years as some hosts have faced cost of living pressures and other pressures around hosting beyond six months. Local authorities have been allocated funding for 2023/24 to support guests at a reduced per guest amount. The government also launched a £500 million Local Authority Housing Fund, which will provide capital funding directly to English councils in areas that are facing the most significant housing pressures as a result of recent Ukrainian arrivals to acquire housing stock and reduce homelessness. Local authorities have been allocated £150 million to support Ukrainian guests to move into their own homes. There will continue to be a need within the city to support Ukrainian guests already in the city and new arrivals including through housing support, school places and support services needed.

## ADULT SOCIAL CARE REFORM

On 7 September 2021, the Government set out plans to reform adult social care in England in the white paper “Building Back Better: Our Plan for Health and Social Care”. It said that £5.4 billion would be used to fund the reforms between 2022/23 and 2024/25:

- £3.6 billion would be used to reform how people pay for social care (charging reforms). This included £1.4 billion to help local authorities move towards paying a “fair cost of care” to providers.
- £1.7 billion would be used to support wider system reform.

The Government originally proposed that the adult social care charging reforms would be implemented from October 2023. However, at the Autumn Statement 2022, delivered on 17 November 2022, the Chancellor announced that the reforms would be delayed for two years, with the funding allocated “to allow local authorities to provide more care packages.” Under the now-delayed reforms, the Government plans to introduce a new £86,000 cap on the amount anyone in England will have to spend on their personal care over their lifetime. The cap will apply irrespective of a person’s age or income. The legislative framework for a cap is already provided by the Care Act 2014, but the relevant provisions are not currently in force.

The Health and Care Act 2022 received Royal Assent in April 2022. It aims to make it easier for health and care organisations to deliver joined up care for people who rely on multiple different services. Implementation will take place over different timescales with requirements on local authorities.

## LEVELLING UP FUNDING

On 11 May 2022, the government introduced the Levelling Up and Regeneration Bill to parliament. The Bill builds on commitments set out in the Levelling Up White Paper 'Levelling Up the United Kingdom'. The Bill will have wide ranging implications for local government particularly in planning reform and devolution. The £4.8 billion Levelling Up Fund opened for a second round of applications with £1.7 billion being allocated in the first round. Decisions on the second round were made in January 2023 with £2.1 billion being allocated nationally. The Council was successful in securing £20 million of funding to upgrade and provide new facilities at the Outdoor Sports Centre.

## LEGACY OF THE COVID-19 PANDEMIC

The COVID-19 pandemic has continued to have an impact on the city as businesses recover from the pandemic and demand remains high for Adults and Children's Services. There also continues to be an impact on educational attainment and mental health services. A further campaign to encourage the take up of COVID-19 booster vaccinations in 2022 has taken place with concerns also for increasing spread of other transmissible viruses such as influenza. The impact of staff absences and the knock-on effect on service delivery remains a concern with contingency plans in place.

### **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 and 702.6 in 2022 (1st April 2022). Although there was an increase in the rate per 10,000 children in 2020 we have seen a decrease in 2021 to 790/10k and to 702.6 in 2022. We are higher than the national average but 2021 and 2022 performance has seen us move closer to Statistical Neighbour Average activity of 638/10k.

### 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
2022	702.6	537.7

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, marginally increased in 2021 to 96/10k and an increase to 114 in 2022. Statistical Neighbours performance in 2022 was 100.6 /10k.

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

Area	2015	2016	2017	2018	2019	2020	2021	2022
Southampton CC	120	120	108	104	95	95	96	114
National Averages	60	60	62	64	65	67	67	70

In the year ending March 2022, the council carried out 338 Section 47 enquiries for every 10,000 children, an increase from 2021 of 320 compared with 180 per 10,000 nationally and 248/10k for Statistical Neighbours. The city had a rate per 10,000 children of 121.8 subject to an initial child protection conference in 2022, compared with 103 in 2021 an average of 61 per 10,000 in England and 82.52 per 10k for our Statistical Neighbours in 2022.

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 561 CLA as at March 31st 2021 compared to 497 on 31st

March 2022, an Increase of 64 CLA from 2021. Statistical Neighbours had an average of 640.5 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 on 1 January 2023 was 542. The percentage CLA in fostering placements made with independent fostering agencies, (IFA) as at 9 January 2023 was approx. 30% (165 placements), down by 2 placements compared to December 2021.

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.

#### **In-house foster carers (Source: Foster carer manager manual data and LAIT)**

	2019/20	2020/21	2021/22
Number of foster carers at end of financial year	163	157	142
Number of approved foster places	355	340	335
Number of filled foster places	230	230	235

## **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 16,381 managed by the council with 7,618 households on its housing waiting list. In the last 12 months, there has been a drop in the number of decent homes from 58.5% to 51.5% of the housing stock. The reduction of 7% is largely due to sector-wide restrictions in the supply chain and labour market affecting the delivery of a number of planned works project lines. A recovery programme is underway to improve the delivery of planned works projects, this includes procurement and improved funding flexibility.

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 set out in the Draft Plan with Options which is available to view here: [Southampton City Vision - documents library](#). 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 approximately 26,500 new homes between 2022 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 Hampshire and Isle of Wight Integrated Care Board (ICB) (formerly Hampshire and Isle of Wight Clinical Commissioning Group) 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 2023/24 the provisional combined Better Care Fund budget is £145.3M, comprising £91.0M for the ICB and £54.3M 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. Many of these major contracts expire in the years 2025/26 and the approach to future delivery and models are being formed as part of the Strategic Procurement Programme.

## **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 Statement 2022**

The government published the Autumn Statement 2022 on 17 November 2022, setting out spending plans for the 2-year period 2023/24 to 2024/25 and guidelines for the medium term. The Chancellor said the Government would "deliver a plan to tackle the cost-of-living crisis and rebuild our economy" with priorities of "stability, growth, and public services". The Autumn Statement reversed nearly all the measures that had been announced by the previous Chancellor in the September 2022 Growth Plan. The key points relevant to local government were as follows:

#### Spend and Additional Funding

- Adult Social Care: Additional grant funding of £1 billion next year and £1.7 billion the year after.
- £600 million in 2023/24 and £1 billion in 2024/25 will be allocated through the Better Care Fund. The remaining £400 million in 2023/24 and £680 million in 2024/25 will be allocated to local authorities through a ringfenced adult social care grant which will also help to support discharge.
- The implementation of the Dilnot Adult Social Care reforms has been delayed for 2 years. Funding set aside for these reforms in 2023/24 and 2024/25 will be paid to local authorities (£1.3 billion in 2023/24 and £1.9 billion in 2024/25).
- NHS budget to be increased for the next two years by £3.3 billion in each year.
- The Government will implement a skills reform programme. This will be coupled with an increase of the school's budget with an additional £2.3 billion to be invested per annum for the next two years.
- There will be no cuts to the funding allocations announced in the Spending Review 2021. Growth in spending from 2025/26 will increase at 1% per year.
- Departmental budgets have been adjusted to remove compensation for the Health and Social Care Levy (no longer going ahead from April 2023).
- Councils will be given the power to increase core council tax by up to 3% without the need for a local referendum. Local authorities with social care responsibilities will be able to increase the adult social care precept by up to 2% per year (a combined maximum increase of up to 5% per annum).
- £1 billion investment to continue the Household Support Fund for an extra year.
- Government had been consulting on a rent cap for housing. The Statement set this cap at 7% for 2023/24.

### Policies directly effecting residents

- Cost of Living payments will be continued in 2023. £900 in means tested benefits, £300 to pensioner households and £150 to households on disability benefit.
- Government is set to review state pension age in 2023.
- The state pension triple lock has been protected. State pensions will increase in line with inflation.
- Benefits will rise in line with inflation next year (10.1%).
- Social Housing Rent increase will be capped at 7% in 2023/24. Saving £200 on average per tenant next year.
- An increased National Living Wage from the current level of £9.50 an hour for over-23s to £10.42 an hour. This equates to a £1600 annual pay rise.
- Support for energy bills will remain in place but become less generous from April 2023. From April, the relief will be continued with a higher level of £3000 per year per average household.
- The Energy Bill relief scheme (EBRS) for businesses is to be scaled down from March 2023.

### Business rates

- Business rates multiplier. The multiplier will be frozen in 2023/24. Local authorities “will be fully compensated for the loss of income as a result of these business rates measures”. The Statement was silent on whether cap compensation would be payable based on the Retail Price Index (RPI) or the Consumer Price Index (CPI).
- Business rates reliefs. Extension of Retail, Hospitality and Leisure (RHL) reliefs into 2023/24, plus a Supporting Small Business Scheme (SSBS).
- A transitional relief scheme to support properties by capping bill increases caused by changes in rateable values at the 2023 revaluation.

### Future Developments for Local Authorities

- Change in approach of investment zones to focus on universities in left behind areas. Submitted "Expressions of Interest" by local authorities not to be taken forward.
- Levelling up: Round 2 confirmed, at least matching the spend of round 1.
- New devolution deal for mayors to Suffolk, Norfolk and the Northeast.

## **2.3.2 Local Government Finance Policy Statement 2023/24 to 2024/25**

On 12 December 2022 the Government published a 2-year Policy Statement outlining the principles that would be applied in the 2023/24 provisional local government finance settlement and the core principles to be applied in the 2024/25 settlement. The main features of the settlement principles relevant to Southampton City Council are:

- “Core” Band D council tax - 2.99% maximum increase for 2023/24 and the same for 2024/25.
- Adult social care (ASC) precept - 2% maximum increase in 2023/24 and again in 2024/25, with no option for deferring any increase from 2023/24 into 2024/25.
- Baseline Funding Level (BFL) and Revenue Support Grant (RSG) - local authorities’ BFL allocations will be uplifted by the implied inflation within the business rates multiplier, with the remainder of the compensation for capping the multiplier coming through S31 grant. RSG allocations will be uplifted in line with the Consumer Price Index in 2023/24 and 2024/25.
- Business rates cap compensation - from 2023/24 onwards, cap compensation will be paid based on CPI rather than RPI (CPI tends to be a lower increase than RPI).
- Adult social care (ASC) grants - funding for the ASC charging reforms will be re-purposed to fund ongoing pressures (£1.265 billion in 2023/24, and £1.877 billion in 2024/25). There will be further funding distributed through the Better Care Fund (local government’s 50% share is £300 million in 2023/24 and £500 million in 2024/25). A new “ringfenced” grant “to support capacity and discharges” will be paid to local government (£400 million in 2023/24 and £683 million in 2024/25).
- Social care grant distribution - the repurposed ASC reform funding will be distributed based on the Adult Relative Needs Formula (RNF) and full equalisation of the ASC precept (i.e. grant distribution will allow for the varying ability of authorities to raise additional council tax through the precept). Other new ASC grants will also use the Adult RNF (but there is no requirement for any further precept equalisation in these grants). The

continuing Fair Cost of Care grant (£162 million) will use a new distribution formula “to reflect progress” on these reforms.

- 3% Funding Guarantee - this is a new feature to ensure every authority has a 3% increase in government funding in 2023/24 (change in Core Spending Power excluding Band D). It will be funded from “a proportion of” New Homes Bonus legacy payments and re-purposing of the current Lower Tier Services Grant. This is most likely to benefit District Councils, who will not have the funding from ASC grants.
- Services Grant – This funding was first introduced in 2021/22 and will continue to operate in the same way in 2023/24 (with £200 million top-sliced from the Services Grant to claw-back funding for the National Insurance Contributions increase that was reversed).
- New Homes Bonus (NHB) – This scheme had been expected to cease, however it will continue in 2023/24 and funding will be paid on the same basis as in 2022/23. The legacy payments (i.e. payments for past years' housing growth), will end in 2022/23 and instead will be used to fund the new 3% funding guarantee. Ministers have promised to issue a new consultation on NHB before the 2024/25 settlement.
- No changes to the local government finance system during the life of this parliament.

### **2.3.3 Provisional Local Government Finance Settlement 2023/24**

The 2023/24 provisional settlement was announced on 19 December 2022, providing details of how resources announced in the Autumn Statement 2022 have been allocated for 2023/24. The key principles that were set out in the Policy Statement remain unchanged in the settlement announcement. Although the Policy Statement covers a 2 year period, the finance settlement is for 1 year only and does not provide allocations for 2024/25. Other headlines from the settlement are as follows:

- Core Spending Power – assuming authorities increase their Band D council tax by the maximum allowed, CSP will increase by 9.2% on average in 2023/24.
- Council tax - 2.99% maximum increase in the “core” council tax for 2023/24 and a 2% adult social care (ASC) precept.
- Business rates – the freezing of the business rates multiplier (which determines the gross business rates charge), announced in the Autumn Statement is fully funded with compensation to authorities based on a lower CPI uplift rather than the RPI.
- Although the multiplier is frozen in cash terms (it remains at 49.9p), the multiplier contains a reduction to reflect increases in rateable values in the 2023 Revaluation and an offsetting uplift for inflation (3.74%).
- Revenue Support Grant (RSG) - allocations have been uplifted in line with the Consumer Price Index (10.1%). Three specific grants totalling £78 million nationally have been rolled into RSG: Local Council Tax Support Administration Grant, Family Annex Council Tax Discount Grant and Food Safety Enforcement Grant.
- Social Care Grant – An additional £1,185 million has been allocated based on the Adult Relative Needs Formula (RNF) and £160 million has been allocated to partly equalise for the ASC precept (i.e. to partly allow for the varying ability of authorities to raise additional council tax through the precept because of the size of their tax base).
- Independent Living Fund grant (£161 million) has now been included as part of the Social Care Grant.
- Adult Social Care grants – two new grants have been announced as part of the settlement: £300 million Adult Social Care Discharge Fund (referred to in the Autumn Statement as going into the Better Care Fund) and £562 million ASC Market Sustainability and Improvement Fund, which combines the £400 million announced in the Autumn Statement “to support capacity and discharges” with the £162 million Fair Cost of Care funding being continued from 2022/23. These grants are ring-fenced and must be pooled with local health boards.
- Services Grant – This has reduced by £358 million from £822 million in 2022/23 to £464 million in 2023/24. A reduction of around £200 million had been anticipated for claw-back of funding for the employers National Insurance Contributions increase that was recently reversed and for some applied to a Supporting Families Grant (£40 million). The remainder is being used towards the RSG increase and to fund a contingency provision.
- New Homes Bonus (NHB) – this will continue for at least one more year, but with no legacy payments i.e. payments will not continue rewarding previous years' growth in housing numbers.
- 3% Funding Guarantee – a new £136 million grant has been created to ensure every authority has an increase in Core Spending Power of at least 3% (before council tax). It is being funded from New Homes Bonus legacy payments and re-purposing of the Lower Tier Services Grant. This mainly benefits councils with no social care responsibilities.
- Council Tax Support – alongside the provisional settlement the Government announced a £100M of additional funding for councils to provide additional support to households already receiving council tax support. Details of how this will be allocated are not yet available.

- The provisional settlement was subject to a consultation period which ended on 16 January 2023. The final settlement was announced on 8 February 2023, largely confirming the allocations made in the provisional settlement.
- Public Health Grant allocations were not made available alongside the provisional settlement and are expected to be announced in mid-February 2023.

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

### **2.3.4 Financial outlook for 2024/25 and after**

The 2023/24 local government finance settlement was for 1 year only, however the accompanying policy statement published in December 2022 outlined the core principles to be applied for 2024/25, providing some degree of certainty over government funding for that year.

The 2022 Autumn Statement outlined local government resources for 2023/24 and 2024/25, with no indication on the quantum of funding thereafter. Any changes to the local government finance system, including the re-setting of business rates baselines and any change to the proportion of locally retained rates, have been deferred to beyond the life of this parliament. In addition, the adult social care charging reforms have been delayed for 2 years and the funding that had been set aside for this has been repurposed. Any decisions on the funding to be made available for implementing the reforms have also been deferred to the next parliament. It remains to be seen whether such funding will be sufficient to meet the costs.

The high levels of inflation and energy prices, increased interest rates and major demand pressures being felt across adults and children's social care remain key factors in the sustainability of local government finance.

## Conclusion

This MTFs highlights the budget shortfalls from 2024/25 onwards and 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. The cost of living crisis that is being experienced nationally has exacerbated the cost pressures being felt in 2022/23 and forecast for 2023/24. Although savings have been identified to help offset the pressures, and there is some extra government funding available, these are insufficient to bridge the gap and a significant proportion of reserves is being used to balance the 2023/24 budget. With reserves being depleted and none available to help with balancing budgets in future years, swift action will need to be taken to find solutions for addressing the future years' budget shortfalls.