

<b>DECISION-MAKER:</b>	CABINET		
<b>SUBJECT:</b>	UPDATE ON BUDGET FORECAST FOR 2023/24 ONWARDS AND SAVINGS PLANS		
<b>DATE OF DECISION:</b>	8 NOVEMBER 2022		
<b>REPORT OF:</b>	CABINET MEMBER FOR FINANCE & CHANGE		
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<b>STATEMENT OF CONFIDENTIALITY</b>
N/A
<b>BRIEF SUMMARY</b>
This report provides an update on the budget position for 2023/24 and beyond. It highlights the financial position of the 2023/24 budget and an update on actions being taken to achieve a balanced budget for next year.

The council is facing severe financial challenges and the proposals within this report do not achieve a balanced budget for 2023/24. As set out in paragraph 28 a shortfall is currently forecast of around £28.90M. There is also a budget gap forecast for future years of £26.23M in 2024/25 rising to £31.57M in 2026/27.

In meeting this remaining £28.90M shortfall in 2023/24, the council has the following options available:

- Further savings/efficiency measures
- Reducing commitments made in previous years, including in the capital programme
- Using the option for an increase on the council tax for adult social care, if made available in the local government finance settlement
- Some use of reserves

The budget process for 2023/24 is very challenging indeed, with many local councils facing severe cost pressures at a time when there is an increasingly strong demand for local authority services. The combination of sharp increases to many of our costs, coupled with significantly higher demand for local services, is behind unprecedented difficulties in working towards a balanced budget for 2023/24.

In seeking to meet the legal requirement for a balanced budget in 2023/24, it is vital the council considers the full range of its spending plans. The council should not look to place an excessive reliance on reserves when seeking to balance its budget. It is one of the principles of the national Financial Management Code that the authority

applies a financial management style that promotes financial sustainability over the medium term, underpinned by a credible assessment of financial resilience. The report identifies some use of reserves as an option to help close the budget gap forecast of £28.9M for 2023/24. Whilst the unallocated sum within the Medium Term Financial Risk (MTFR) reserve is currently estimated at £41.2M this doesn't include any contribution to the forecast in-year deficit, which was reported as £15.2M as at quarter 1 to Cabinet (note that an update for quarter 2 will be reported to Cabinet on 15 November).

Use of reserves is simply a one-off measure which doesn't address the underlying deficit position, and once applied the reserves are not available for other potential use, such as providing a safety net against risks or to help with one-off costs such as service transformation work. Reliance on a large draw on reserves to balance the budget therefore has major disadvantages:

- It greatly reduces the financial resilience of the council
- It significantly increases the council's exposure to future risks
- It compromises 'invest to save' and transformation work as it depletes the one-off resources available for such programmes and initiatives
- The backstop reserves provide against the non delivery of saving plans and future overspends is also compromised, meaning there is much reduced leeway if things do not run according to plan or within budget assumptions

For the above reasons, use of reserves should be limited as far as possible when looking to balance the budget, taking account of the exposure to risk any use causes and how it may limit future options on how to deliver savings and manage the risks of any non delivery of planned savings. The S151 Officer has a legal duty to provide a view, as a part of the budget report in February, on the adequacy of reserves and the robustness of the budget estimates. Recent events with COVID and the economic effects from the invasion of the Ukraine demonstrate the importance of a budget that has sound reserves as reliance against potential shocks, as well as providing a necessary buffer when more ambitious efficiencies and savings are required.

The budget situation is also in a state of rapid flux, for example with national issues such as the Government's 23 September 2022 Growth Plan announcement impacting upon interest rates. Given the uncertainty and frequently changing nature of the financial strains and pressures faced, the Medium Term Financial Strategy (MTFS) is under constant review. A more detailed update to the Strategy will therefore be given to Cabinet in due course.

## RECOMMENDATIONS

It is recommended that Cabinet:

<b>General Fund</b>	
i)	Notes the update within this report and the work being undertaken to achieve a balanced budget for 2023/24.
ii)	Notes the initial draft savings proposals being consulted upon set out in appendix 1.
iii)	Notes that even with the proposals contained in this report, a budget shortfall of £28.90M is still currently forecast for 2023/24 and notes the

options available to produce a balanced budget.

### **Housing Revenue Account**

- iv) Notes the update within this report and the work being undertaken to achieve a viable 40-year business plan.
- v) Notes the initial HRA draft savings proposals being consulted upon set out in appendix 2.
- vi) Notes the proposed increases to Landlord Controlled Heating charges being consulted on as set out in paragraph 47.

### **REASONS FOR REPORT RECOMMENDATIONS**

1. This report is submitted for consideration as part of good practice in establishing draft budget proposals in advance of the financial year.
2. The production of a financial forecast and an outline timetable are a requirement of the Council's Budget and Policy Framework Procedure Rules.

### **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

3. The proposals presented in this report represent the Cabinet's initial proposals for the 2023/24 budget and medium-term financial strategy, which are being published for consultation. There are a number of variables and alternative options that could be implemented as part of the budget. Further proposals to achieve a balanced budget for 2023/24 will be brought forward in subsequent reports. The budget will be set by Full Council in February 2023.

### **DETAIL (including consultation carried out)**

#### **Background**

4. Full Council approved a 4-year Medium Term Financial Strategy (MTFS) in February 2022, the objective of which is to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the council's priorities whilst delivering a balanced budget.
5. Table 1 below shows the MTFS position as reported in February 2022. This shows a recurrent budget shortfall of around £21M - £23M per annum after 2022/23.

#### **Table 1 – February 2022 Forecast Budget Shortfall 2022/23 to 2025/26**

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

#### **2022/23 General Fund Forecast Outturn**

7. A forecast £15.24M revenue deficit on the General Fund for 2022/23 as at the end of June 2022 was reported to Cabinet at its meeting on 16 August 2022. As noted in the report, the council faces severe financial pressures, not only from high demand for services, particularly within social care, but also due to the impact of high levels of inflation in salaries, utilities, debt financing and construction. The shortage in the labour market across many sectors, has increased the usage of interim and agency workers at an increased cost. Many of these financial pressures are on-going into

	future years and are reflective of national pressures, but with a local impact and need to address.
8.	Mitigation plans to reduce the forecast deficit have been developed and put into action. A report to Cabinet on 15 November 2022 on the financial monitoring for the period to the end of September 2022 will provide an updated position.
	<b><u>National Public Expenditure Plans</u></b>
9.	The 2021 spending review set out government departmental budgets for the period 2022/23 to 2024/25. Excluding funding for social care reform, the spending review included £4.8Bn nationally of additional funding for local government, £1.6Bn in each of the 3 years, with no growth planned for the 2 <sup>nd</sup> or 3 <sup>rd</sup> years.
10.	Following the then Chancellor of the Exchequer's Growth Plan announced on 23 September 2022 and subsequent events, it is uncertain whether the government will be sticking to spending settlements for local government for this spending review period. It was also stated when the Growth Plan was announced that funding for health and social care services would be maintained at the same level as if the Health and Social Care Levy (now being abolished) was in place, however this may no longer be the case.
11.	There is still much uncertainty about the level of funding local government will receive for 2023/24. The position may become clearer when the Chancellor announces his Autumn Statement on 17 November 2022. For financial planning purposes it has been assumed that the overall quantum of funding for local government will remain the same as in the 2021 spending review. No additional funding for inflationary or other pressures being experienced by local government is expected, which means a significant reduction in funding in real terms.
12.	There have been no formal announcements on the local government fair funding review or business rates retention reset, however media coverage suggests that implementation will be delayed for at least another year. Until any more detail is provided, it has been assumed that the council will be no better or worse off in funding terms from any policy changes resulting from reviews to the local government finance system. This includes an assumption that the Services Grant, allocated in the 2022/23 local government finance settlement on a one-off basis (and worth £3.8M to Southampton), will continue at the same level over the medium term. This grant included funding for the increase in employer National Insurance Contributions/Health and Social Care Levy and there is a risk that some or all of the grant may be withdrawn.
13.	The 2021 spending review included £5.4Bn of funding for local government for the social care reforms due to be introduced from October 2023, of which £3.6Bn is for the "care cap" and changes to capital limits. The government recently consulted on the methodology for distributing the funding for social care charging reforms, however the outcome is not yet known. Much will depend on how Government distributes extra funds to support these national reforms, but it is widely expected by local authorities that the local costs of the changes will exceed the extra Government funding provided. Due to the uncertainty, this potential extra cost is <u>not</u> yet factored into future budget shortfall estimates.
	<b><u>2023/24 Budget and MTFS</u></b>
14.	The February 2022 MTFS noted in paragraph 6 shows a recurrent budget shortfall over the medium term. In developing a balanced budget for 2023/24, it is therefore important to keep sight of the financial position for future years, so that decisions

made in setting next year's budget are not detrimental to ensuring a sustainable budget over the medium term. As noted in paragraph 65, members have a legal duty in considering future local taxpayers as well as current local taxpayers when agreeing the budget for the year. For these reasons a further year has been added to the medium-term financial forecast so that it covers the 4-year period 2022/23 to 2026/27.

15. Table 2 below sets out the updated forecast budget shortfall over the period of the medium-term financial forecast taking into account assumed funding changes, use of reserves, budget and inflationary pressures, and draft savings proposals. Further details are provided in the following paragraphs.

16. Table 2 – Updated Forecast Budget Shortfall

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

NB Numbers are rounded

Funding Changes

17. The £3.82M Services Grant received on a one-off basis in the 2022/23 local government finance settlement is assumed to continue, along with all other grants notified in the settlement, with the exception of New Homes Bonus which is assumed to cease. There is a risk that funding may be reduced if the government removes funding for the Health and Social Care Levy from the total distributed.

18. Based on our modelling of costs and funding options for the social care charging reforms, there is a risk of a shortfall in funding of up to £1.1M in a full year, depending on the methodology selected for distributing the funding. This risk has not been factored into the updated budget shortfall as the distribution of funding for other aspects of the reforms has yet to be confirmed.

19. Business rates payable (before any reliefs are applied) is a product of the rateable value of a property and the business rates multiplier. The multiplier is normally updated each year with reference to the Consumer Price Index 12-month rate for September of the preceding year. The February 2022 MTFS assumed the multiplier for 2023/24 would increase by 4.0 per cent, however the actual September 2022 CPI 12-month rate was 10.1 per cent. The larger increase in the multiplier is expected to generate an additional £3.0M of retained business rates income. There is a risk that if the government decide to increase the multiplier by a lower amount, or not at all, that the council may not be fully compensated.

20. The MTFS agreed in February 2022 assumed council tax increases of 2 per cent a year for 2023/24 to 2025/26 and did not include any increase in the adult social care precept. The updated forecast maintains this position. However, if the government continues with the policy set out in the 2021 spending review it is likely that local authorities with social care responsibilities will be given the flexibility to raise council

	tax by 1 per cent specifically for adult social care budget pressures. A further 1 per cent would generate an additional £1.1M of council tax income.
	<u>Reserves and Balances</u>
21.	<p>The balance on General Fund earmarked revenue reserves (excluding schools' balances) at the end of 2021/22 was £96.19M. This included revenue grants totalling £20.93M carried forward, all of which are expected to be used in 2022/23. By the end of 2022/23 the forecast balance on reserves (excluding schools' balances) is £52.15M. The Medium-Term Financial Risk reserve is currently estimated as having a £41.19M balance unallocated at the end of the end of the MTFS period, after using £1.00M to help meet budget pressures in 2023/24. However, this doesn't include any contribution towards the in-year deficit noted at paragraph 7.</p> <p>The forecast for General Fund earmarked reserves doesn't include the deficit on the Dedicated Schools Grant (DSG) which is being held in a separate account in accordance with legislation relating to the period 2020/21 – 2022/23. The cumulative DSG deficit at the end of 2021/22 was £11.09M and is expected to reduce to £10.24M by the end of 2022/23. If the statutory override isn't extended this deficit may have to be met from the General Fund, which is a further major risk to the Council's finances and future resilience.</p>
22.	At the end of 2021/22 general balances stood at £10.07M and are expected to be maintained at this level in 2022/23 to provide for any unknown risks.
	<u>Budget and Inflationary Pressures</u>
23.	The total estimate of budget and inflationary pressures for 2023/24 is £30.34M as shown in table 2 above. The majority of this is for pressures being experienced in 2022/23 which are on-going in future years. Children's social care and adults social care, in particular, are experiencing a high demand for services, which constitutes about half of the budget pressures (£14.93M). High levels of inflation mean forecast contract price increases and pay awards cannot be contained within existing inflation and contingency budgets, resulting in a £3.00M pressure, with a further £3.00M pressure for energy costs alone. Recent increases in interest rates are also expected to result in a £1.75M increase in borrowing costs in 2023/24.
	<u>Draft Savings Proposals</u>
24.	A series of sessions have been held with individual Executive Directors to identify savings proposals to address the budget shortfall, as well as the Executive Management Board working collectively to identify savings that could be made on an authority-wide basis.
25.	The emphasis on savings continues to be on driving through efficiencies and costs reductions with a view to protecting front line services and council priorities. The total of draft savings proposals for 2023/24 is £17.05M as shown in table 2 above, rising to £19.51M by 2026/27. Details of savings proposals being consulted upon are provided in appendix 1 and a summary of other draft savings proposals is provided in table 3 below.

26.	<p><b>Table 3 Summary of Other Draft Savings Proposals</b></p> <table border="1"> <thead> <tr> <th></th> <th>2023/24 £M</th> <th>2024/25 £M</th> <th>2025/26 £M</th> <th>2026/27 £M</th> </tr> </thead> <tbody> <tr> <td>Efficiency measures</td> <td>(12.60)</td> <td>(11.85)</td> <td>(15.03)</td> <td>(15.72)</td> </tr> <tr> <td>Income generation proposals</td> <td>(1.28)</td> <td>(1.97)</td> <td>(1.90)</td> <td>(1.90)</td> </tr> <tr> <td>Other savings proposals</td> <td>(2.15)</td> <td>(1.34)</td> <td>(0.84)</td> <td>(0.84)</td> </tr> <tr> <td><b>Total Other Draft Savings Proposals</b></td> <td><b>(16.03)</b></td> <td><b>(15.16)</b></td> <td><b>(17.77)</b></td> <td><b>(18.46)</b></td> </tr> </tbody> </table> <p style="text-align: center;">NB Numbers are rounded</p>		2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	Efficiency measures	(12.60)	(11.85)	(15.03)	(15.72)	Income generation proposals	(1.28)	(1.97)	(1.90)	(1.90)	Other savings proposals	(2.15)	(1.34)	(0.84)	(0.84)	<b>Total Other Draft Savings Proposals</b>	<b>(16.03)</b>	<b>(15.16)</b>	<b>(17.77)</b>	<b>(18.46)</b>
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27.	<p>Work will continue on the draft savings measures included in this report to ensure that plans are in place to achieve and deliver the savings to both the time and scale needed, ahead of inclusion in the budget report at February Council as a robust set of proposals.</p>																									
	<p><b><u>Budget Gap</u></b></p>																									
28.	<p>Table 2 indicates a budget shortfall of £28.90M for 2023/24 even after taking into account new draft savings proposals, which is higher than the starting position due to the severity of budget pressures and the impact of inflation.</p>																									
29.	<p>All authorities are required by statute to set an annual budget that balances income and expenditure, hence work will need to continue to ensure proposals for a balanced budget for 2023/24 can be considered by Council at its meeting in February 2023, by eliminating the forecast £28.90M shortfall.</p>																									
30.	<p>Possible measures include applying a 1 per cent Adult Social Care Precept (if this flexibility is given to local authorities) and use of 2021/22 outturn surpluses held within reserves that are not required to meet the 2022/23 deficit. Table 4 sets out what the revised position would be with these measures.</p>																									
31.	<p><b><u>Table 4 – Revised Forecast Budget Shortfall</u></b></p> <table border="1"> <thead> <tr> <th></th> <th>2023/24 £M</th> <th>2024/25 £M</th> <th>2025/26 £M</th> <th>2026/27 £M</th> </tr> </thead> <tbody> <tr> <td><b>Updated Forecast Budget Shortfall November 2022</b></td> <td><b>28.90</b></td> <td><b>26.23</b></td> <td><b>26.10</b></td> <td><b>31.57</b></td> </tr> <tr> <td>If apply 1 per cent Adult Social Care Precept</td> <td>(1.10)</td> <td>(1.10)</td> <td>(1.10)</td> <td>(1.10)</td> </tr> <tr> <td>If available 2021/22 outturn surpluses are applied</td> <td>(2.78)</td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>Revised Forecast Budget Shortfall</b></td> <td><b>25.02</b></td> <td><b>25.13</b></td> <td><b>25.00</b></td> <td><b>30.47</b></td> </tr> </tbody> </table> <p style="text-align: center;">NB Numbers are rounded</p>		2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	<b>Updated Forecast Budget Shortfall November 2022</b>	<b>28.90</b>	<b>26.23</b>	<b>26.10</b>	<b>31.57</b>	If apply 1 per cent Adult Social Care Precept	(1.10)	(1.10)	(1.10)	(1.10)	If available 2021/22 outturn surpluses are applied	(2.78)				<b>Revised Forecast Budget Shortfall</b>	<b>25.02</b>	<b>25.13</b>	<b>25.00</b>	<b>30.47</b>
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32.	<p>Publication of the Chancellor’s Autumn Statement in mid-November may provide some indication of funding for 2023/24, however individual local authority allocations will not be known until the Provisional Local Government Finance Settlement, which is expected to be announced in late December 2022. This is very late in what is an extremely challenging budget process. If assumptions on funding are inaccurate there will be very little time to make any further budget adjustments.</p>																									
33.	<p>Failing the identification of any further proposals to reduce commitments, mitigate pressures or additional savings, any remaining gap in 2023/24 would need to be met through use of reserves. Any significant use of reserves to meet the in-year deficit</p>																									

	and/or 2023/24 budget gap would deplete the reserves available to deal with any financial risks or for invest to save measures. As reserves are one-off in nature, this would only be a short-term measure and significant on-going reductions in net revenue expenditure, through income generation, efficiencies or other measures, would need to be identified in order to achieve a balanced budget in future years.
	<b><u>Capital Programme</u></b>
34.	The capital programme has been reviewed, taking into account expected slippages, re-phasing and a review of priorities. This has led to a re-estimation of the sum needed for capital financing in 2023/24 and future years. The reduced cost has been included in the draft savings proposals as one of the ways that contributes to balancing the budget next year.
	<b><u>Summary – General Fund</u></b>
35.	<p>The updated forecast for the 2023/24 budget shortfall, at £28.9M as per table 2 represents a larger shortfall than the £23.4M originally estimated in the Medium Term Financial Strategy at the time of the February 2022 Council budget meeting. This is even <u>after</u> allowing for the £17.1M identified draft savings proposals. The situation is one of unprecedented budget pressures, with the following being major factors:</p> <ul style="list-style-type: none"> <li>• Strong demand for Adults and Children’s Social Care</li> <li>• Increasing costs for Home to School Transport</li> <li>• Inflationary pressures – with RPI reported at 12.6% having an impact across the board on our costs</li> <li>• Exceptionally high increases to energy costs</li> <li>• The nationally set pay award, which has yet to be agreed, but on the basis of the Employer offer made it will exceed the budget provision set for 2022/23 by at least £3.9M</li> <li>• Much higher interest rates than anticipated. The February 2022 Medium Term Financial Strategy assumed 2.5% interest rates for council borrowing. Current available long term rates exceed 5% resulting in an expected £1.75M increase in borrowing costs for 2023/24.</li> </ul>
36.	Nationally, councils across the country share many of the above financial pressures and will face the same struggle to contain these pressures and set a balanced budget for 2023/24. The detailed MTFS will present a fuller picture, but the severity of the financial challenges faced should not be underestimated and presents a grave risk to the future finances of the council and its financial resilience going forward.
	<b><u>Housing Revenue Account (HRA)</u></b>
37.	The HRA records all the income and expenditure associated with the provision and management of council owned homes in the City. This account funds a significant range of services to approximately 16,000 homes for Southampton tenants and their families and to over 2,000 homes for leaseholders. This includes housing and estate management, repairs, improvements, and statutory compliance activity; welfare advice, employment and skills support, support to address anti-social behaviour and support for the victims of domestic abuse; supported housing services for older people and those with extra care needs, neighbourhood wardens, and capital spending on council properties.
38.	A £3M revenue deficit on the HRA was initially forecast for 2022/23, with identified savings reducing the potential deficit to £0.78M as at quarter 1. This deficit was balanced off against planned revenue contributions to the capital programme,



	<p>pending the identification of further savings, in order to maintain the £2M working balance for the HRA. If further savings are not found, redirecting contributions to the capital programme in this way means extra debt costs in the longer term.</p> <p>The pressures being experienced largely contribute to an estimated deficit of over £2M for 2023/24 (assuming rents increase by 5 per cent). If the cap imposed by Government is lower than this level, the impact will be significantly worse. Initial modelling suggests that significant savings would also be required over the 40-year life of the business plan to maintain viability.</p>
39.	The expenditure pressures faced by the HRA are the same as seen in the General Fund and come in the context of a local decision to freeze rent and service charges, in 2022/23, when most other councils raised rents by the statutory maximum of 4.1 per cent.
40.	The majority of expenditure pressures being experienced in 2022/23 are on-going in future years, specifically in relation to wage inflation, significant increases in the cost of building materials used for repairs, and significant increases in energy costs for communal lighting, supported housing and Landlord Controlled Heating. Interest rate rises will also have a significant, longer-term impact on the 40 year business plan.
41.	Mitigation plans to reduce the forecast in-year deficit have been developed and put into action. A report to Cabinet on 15 November 2022 on the financial monitoring for the period to the end of September 2022 will provide an updated position on the HRA.
42.	Under the existing legislation the Council could increase rent up to the CPI 12-month rate + 1 per cent. However, given current high inflation, it is almost certain that a rent cap will apply in 2023/24 and potentially 2024/25. The government recently undertook a consultation on proposals for rent caps and the response is currently awaited.
43.	A session was held at the beginning of September with relevant Executive Directors and key budget managers to identify savings proposals to address pressures within the 40 year business plan. Details of HRA savings proposals being consulted upon are provided in appendix 2. Proposals regarding Landlord Controlled Heating charges are set out below.
	<u>Landlord Controlled Heating Charges</u>
44.	The HRA budget for 2022/23 included a 16% increase in charges to those tenants in receipt of Landlord Controlled Heating (LCH). Tenants were consulted on this increase in the autumn of 2021 as part of the budget setting process. At the time this increase was deemed reasonable. In the months following that consultation and the onset of war in Ukraine, there have been huge rises in the cost of energy, which has not been reflected in an increase in the charge to those tenants who receive LCH, despite those tenants having received both the universal and targeted support provided by Government.
45.	5,486 tenants and 179 leaseholders are affected by LCH and have effectively been subsidised by the HRA in 2022/23. At the time of writing this report, the Government had announced that all residents will be subject to an energy price cap until April 2023, and that Council services are to be included in a six-month energy price guarantee set up by the Government for businesses who do not benefit from the energy price cap.
46.	The proposed increases in LCH charges are set out in table 5 below.

47. Table 5 Proposed Landlord Controlled Heating Charges

<b>Band</b>	<b>2022/23 Charge £</b>	<b>Proposed Charge £</b>	<b>Percentage Increase</b>
A	550.16	1,106.96	101%
B	686.40	1,329.06	94%
C	824.72	1,551.16	88%
D	960.44	1,773.26	85%
E	1,098.76	1,995.36	82%
F	1,236.56	2,232.76	81%
G	1,372.80	2,473.56	80%
H	1,510.08	2,717.76	80%
J	206.44	384.46	86%

48. The proposal for increasing LCH charges has been developed to ensure that any resident in receipt of LCH should not have to pay more than the average costs under the Government's energy cap, when their LCH and their energy provider costs are combined. The proposal will partially mitigate the increase in costs seen on the account. However, the anticipated deficit will not be completely eliminated, and further action is likely to be needed in due course.

49. Work is continuing on building the 40 year HRA business plan, and ensuring the HRA savings measures are appropriately built in, and to ensure that plans are in place to achieve and deliver the savings to both the time and scale needed, ahead of inclusion in the budget report at February Council as a robust set of proposals.

**Budget Consultation**

50. The draft savings proposals that have been put forward have been subject to consultation with the Executive Management Board (EMB) and relevant Cabinet Members.

51. The Executive will undertake a public engagement exercise on their draft budget proposals set out in appendices 1 and 2, and the proposed increases to Landlord Controlled Heating charges set out in paragraph 47, following the production of this report. The Leader and the Cabinet are keen to receive feedback on those proposals and on the potential impact they may have to help finalise the Executive's budget to be recommended to Full Council in February 2023.

52. The aim of this public engagement exercise is to:

- a) Make residents aware of the significant financial pressures the Council is facing;
- b) Ensure residents are aware of savings that are being proposed and what this will mean for them;
- c) Enable residents, businesses and stakeholders to comment and raise any impacts the proposals may have;
- d) Ensure that resident feedback is taken into account when final decisions are made;
- e) Provide a summary of feedback received and how these have influenced the final decision.

53.	The engagement exercise will run from 9 November 2022 to 10 January 2023. The exercise will be based around an online questionnaire and paper copies will also be made available where required.
	<b><u>Equality and Safety Impact Assessments</u></b>
54.	The Public Sector Equality Duty is a duty on public bodies which came into force on 5 April 2011 and requires the council to show that it has 'had regard' to the impact of its decisions on its equality duties and the need to advance equality of opportunity between people who have protected characteristics and those who do not.
55.	While the Public Sector Equality Duty does not impose a legal requirement to conduct an Equality Impact Assessment, it does require public bodies to show how they considered the Equality Duty and that they have been consciously thinking about the aims of the Equality Duty as part of the process of decision making. To comply with these requirements as well as other relevant impacts including Community Safety (Section 17 of the Crime and Disorder Act), poverty and health and wellbeing, the council has used its existing Impact Assessment framework so that it can ensure the use of a consistent, council wide mechanism to evidence how decision making took into account equality and safety considerations.
56.	Draft individual Equality and Safety Impact Assessments (ESIAs) have been completed by the council's Executive Management Board for those proposals contained in the appendices that have been identified as requiring such an assessment, as they could have an impact on a particular group or individuals. The draft individual ESIAs are available in Members' Rooms and will be published alongside the Budget consultation.
57.	The individual ESIAs have been analysed to consider the cumulative impacts the draft savings proposals may have on particular groups and the mitigating actions that could be considered. In order to give the right perspective to the draft savings proposals, the Cumulative Impact Assessment has to be considered in light of the available information on the City's profile, service user and non-user information. The Cumulative Impact Assessment is available in Members' Rooms and will be published alongside the Budget proposals to inform the public engagement exercise.
	<b><u>Timetable</u></b>
58.	The provisional 2023/24 local government finance settlement is expected in late December 2022. It is not known whether this will be a 1-year settlement or 2-year to match the remainder over the spending review period. The settlement will include the council's allocation of Revenue Support Grant, Business Rates Top-Up Grant and is likely to include allocations for other non-ringfenced grants.
59.	Setting of the Council Tax base and approval of the Local Council Tax Support Scheme are formally delegated to the Executive Director for Finance, Commercialisation & S151 Officer and will take place in late January 2023.
60.	The Cabinet will put forward its final proposals for the 2023/24 Budget, MTFs and Capital Programme at its meeting on 21 February 2023, taking into account feedback from the public engagement exercise outlined above.
61.	Full Council will set the 2023/24 Budget and agree the Band D Council Tax, MTFs and Capital Programme on 22 February 2023.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	

62.	The capital and revenue implications are detailed within the report.
<b><u>Property/Other</u></b>	
63.	None other than those detailed in the report.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
64.	It is important that Members are fully aware of the full legal implications of the entire budget and Council Tax making process, when they consider any aspect of setting the Council's Budget. Formal and full advice to all Members of the Council protects Members, both in their official and personal capacity, as well as the Council. If Members have received the appropriate professional legal and financial advice and act reasonably, generally the courts will not interfere in their decisions.
65.	The first and overriding legal duty on Members is their fiduciary duty to weigh the needs of service users against the interests of local taxpayers. In planning the budget, Members are under a fiduciary duty to act prudently, responsibly, in a business-like manner and in their view of what constitutes the best interests of the general body of local taxpayers. In deciding upon expenditure, the Council must fairly hold a balance between recipients of the benefits of services provided by the Council and its local taxpayers. Members should note that their fiduciary duty includes consideration of future local taxpayers as well as present local taxpayers.
66.	It is appropriate for Members to consider their own position as some Members may have expressed support publicly for policies that are not policies of the Council. Political documents do not represent a legal commitment on behalf of the Council. To treat any political document as a legal commitment by the Council would be illegal. Where there is a valid choice before Members, then, at that stage and only at that stage, Members may take political documents into account.
67.	The legal significance of the Annual Budget derives from the Council's duty under the Local Government Finance Act 1992 (the 1992 Act) to set a balanced budget. Failure to make a lawful Council Tax before 11 March 2023 could have serious financial results for the Council and make the Council vulnerable to an Order from the Courts requiring it to make a Council Tax. Information must be published and included in the Council Tax demand notice. The Secretary of State has made regulations, which require charging authorities to issue demand notices in a form and with contents prescribed by these regulations.
68.	There is also a duty under Section 65 of the 1992 Act to consult persons or bodies appearing to be representative of persons subject to non-domestic rates in each area about proposals for expenditure (including capital expenditure) for each financial year.
69.	Under Section 114 (2) and 114 (3) of the Local Government Finance Act 1988, the Chief Financial Officer is required to make a report, if it appears to him/her that a decision or course of action the Council or an officer has agreed or is about to make is unlawful, or that expenditure is likely to exceed resources available.
70.	Section 25 of the Local Government Act 2003 imposes a specific duty on the CFO (Section 151 officer) to formally report to Council at the time the budget is considered and the Council Tax is set on the robustness of the budget estimates and the adequacy of financial reserves. This report will be brought forward alongside the Budget and Council Tax Setting Report to Full Council in February.
71.	Of particular importance to the Council Tax setting process and Budget Meeting of the

Full Council is the Council's Budget and Policy Framework Procedure Rules set out in Part 4 of the City Council's Constitution. These provide a legal framework for the decision making process whereby the Budget of the City Council is determined, and the Council Tax is set. In addition, Members need to be aware that these Rules provide a route whereby the Leader may require the Full Council to reconsider their position if they do not accept the Executive's recommended budget without amendment.

**Other Legal Implications:**

72. The financial forecasts contained in this report have been prepared and are submitted as part of the budget process set out in the Council's Constitution. As part of the review process by the Council's Executive Management Board, the proposals contained in this report have been checked from a legal viewpoint.

**RISK MANAGEMENT IMPLICATIONS**

73. Price and wage inflation is a cause for concern. This is partly due to the crisis affecting energy markets and the wider effects of the war in the Ukraine on the global economy. Pay inflation has been allowed for at 3% for 2023/24 (the offer this year equates to a 5.6% rise but hasn't been agreed). Nationally, Government has been placing more emphasis on wage restraint but local authority pay increases are not set by national Government. Each 1% on pay adds £1.2M to SCC costs. Inflation on contracts has been allowed for at 6%.

74. The cost of living crisis may also have an impact on numbers in receipt of council tax support and on the ability to collect income expected via council tax and business rates. No revisions to previous estimates have been made in the updated budget shortfall and this remains a risk area.

75. Any further impact from risk will be reviewed as part of the update of the MTFs to be approved by Full Council in February 2023.

76. Risks that arise from any excessive reliance on reserves to assist with budget pressures and balancing the 2023/24 budget are outlined at the beginning of this report.

77. Other risks that the proposed budget for 2023/24 will need to consider, some of which are already identified above, include:

- The contingency budget for 2023/24 is currently set at £1.2M – this is a reduced contingency compared with previous years.
- No allowance for any extra costs for the reform of Social Care over and above the funding Government will provide. Recent press reports suggest a delay with implementation.
- A new phase of austerity has been signalled by Government Ministers, this may impact on our future funding. We do not have a certain finance settlement for 2023/24, or subsequent years.
- Although flexibility to apply a 1% adult social care precept was signalled in the 2021 Spending Review this remains to be confirmed in the 2023/24 settlement.
- Interest rates – when the budget was set in February an assumption of 2.5% was cautious. In October, long term borrowing rates from the Public Works

	<p>Loan Board were in excess of 5% for a time.</p> <ul style="list-style-type: none"> <li>• The Council received around £1.1M in 2022/23 in Government funding to cover the extra costs of Employers National Insurance rises. Treasury may withdraw the funding from 2023/24 now Government has cancelled the increase.</li> <li>• Business rates are being revalued with effect from April 2023 and there is a risk of an increase in successful appeals, which would reduce our business rates income.</li> <li>• Any worsening of the current in-year financial forecast, with a higher forecast overspend, would impact on unallocated reserves available in 2023/24.</li> <li>• The 2023/24 budget will inevitably significantly depend on savings. If these are not achieved to the time and scale assumed, overspends in year will result and will put pressure on what are likely to be reduced level of reserves.</li> <li>• There is a risk that the statutory override for the cumulative DSG (schools) deficit may not be extended and that this becomes a call on the General Fund. The current deficit as at the end of 2021/22 was £11.1M.</li> </ul>
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
78.	The Medium Term Financial Strategy and the Budget are key parts of the Policy Framework of the Council and a Budget and Council Tax for 2023/24 must be proposed by the Cabinet for consideration by the Full Council under the Constitution.

**KEY DECISION?** No

<b>WARDS/COMMUNITIES AFFECTED:</b>	All
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### SUPPORTING DOCUMENTATION

#### Appendices

1.	General Fund draft savings proposals for consultation
2.	HRA draft savings proposals for consultation

#### Documents In Members' Rooms

1.	Cumulative Impact Assessment
2.	Individual ESIA's

#### Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out?	Yes
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<b>Data Protection Impact Assessment</b>	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	Yes
<b>Other Background Documents</b>	
<b>Equality Impact Assessment and Other Background documents available for inspection at:</b>	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	The Revenue Budget 2022/23, Medium Term Financial Strategy and Capital Programme (Council 23 February 2022)	
2.		