MEDIUM TERM FINANCIAL STRATEGY 2024/25 – 2027/28

Contents

Introduction

The Medium Term Financial Strategy (MTFS) provides the strategic financial framework and forward looking approach to financial planning 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 account of known pressures, major issues affecting the council's finances, external economic influences, and local factors. It helps the council to plan for these to pressures and issues so far as these can be seen and assessed. This is particularly important during a period when the council faces considerable pressures and challenges. 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 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 services.

Against a backdrop of a challenging economic climate, the council is facing significant pressures. Despite these pressures, it is focussed on right sizing its expenditure and budgets to meet the resources available whilst delivering on the Corporate Plan and the Administration's manifesto pledges. The council has a collective responsibility for delivering a balanced budget and a sustainable financial plan. As a result, a new financial strategy has been developed to balance the council's finances in the medium term, with the aim of improving the financial resilience of the organisation. There is full recognition of the financial situation, and the strategy set out aims to take the organisation to a sustainable financial footing, where the organisation can invest purposefully to ensure the city is growing to its full potential to become the 'city of opportunity'.

Part of the background to the financial challenges the council faces are national economic issues that have impacted on costs as well as continued pressure of demand for our local services. For example, we have experienced:

- unusually high levels of inflation and the cost-of-living crisis impact
- very sharp increases in the costs of energy for the council
- higher than expected nationally set pay awards
- sharply rising interest rates, after a prolonged period of very low interest rates
- continuing high demand for council services, especially in the field of social care for both Adults and Children, but also other key areas such as Home-to-School Transport
- Inflation, which has also impacted on contractual costs and continues to influence the costs arising from the capital programme

Despite implementing the new financial strategy and taking actions during the year to reduce net spend, a balanced budget for 2024/25 is only being achieved with Exceptional Financial Support (EFS) from the government. Subject to meeting the conditions attached to the EFS offer, this will allow revenue expenditure to be capitalised in 2024/25 and provide time for the development and implementation of a transformation programme to bring service delivery back within the resources available in future years.

Our focus and approach

Our aim is to stabilise the council's general fund to create a sustainable council that can deliver on its priorities. The MTFS is framed by both the Corporate Plan and the political priorities of the Administration, which are:

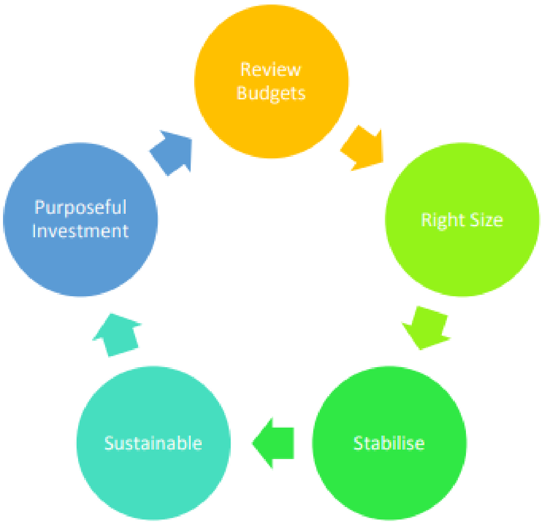
- Ensuring delivery of the manifesto
- Supporting residents with the cost-of-living crisis
- Increasing income and growing the economy
- Ensuring efficient services providing value for money for residents
- Any decision taken should not increase demand in another part of the council

In the longer term the council remains ambitious to create economic prosperity through growth. But we recognise that the current position needs urgent and responsible attention alongside the focus on achieving this vision. The financial situation is serious with a great deal of local and national uncertainty impacting on forecasts. When the 2023/24 budget was agreed it was evident the council faced significant and serious budget challenges with a heavy reliance on reserves. As a result of this the Chartered Institute of Public Finance and Accountancy (CIPFA) were engaged in the Spring of 2023 to review the financial management and the financial resilience of the organisation, and later in the year to conduct a review of forecasts to provide external validation.

CIPFA's report highlighted the reliance on reserves to meet gaps in the council's budget. This has led to balanced budgets being achieved but has eroded the council's reserves. CIPFA recommended that a plan to replenish reserves should be put in place, and that the council needed to immediately put in place tight controls over savings delivery, cash limit spending and develop mitigation plans for non-delivery of these. A new financial strategy has been developed in recognition of the council's financial position and CIPFA's findings. This strategy describes a planned approach to address the points highlighted by CIPFA by introducing a 'cash limited' budget approach. It also highlights the mitigation plans aimed at better controlling in-year pressures, whether these be down to unachieved savings or new spending pressures emerging. The strategy sets out the following five steps to achieve the aim of stabilising the council's general fund account to create a sustainable council:

1. Review budgets to establish the financial position.
2. Right sizing the budget to ensure there is clarity on affordable expenditure levels.
3. Stabilisation to remove in year overspend and ensure the structural deficit has been addressed and reliance on reserves removed.
4. Sustainable budget to ensure the council is sustainable and able to withstand economic and financial shocks.
5. Purposeful investment – all investment, either revenue or capital, to have a clear purpose and strong business case.

Figure 1: high-level overview of the financial strategy



The task of right sizing the council's expenditure to match its resources and rebuilding reserves should not be underestimated. The council is in an uncertain financial position and will need the whole organisation to focus on cost control, at the same time as we are growing the city and the income streams of council tax, business rates and fees and charges. To achieve a balanced and sustainable budget, new approaches will need to be introduced due to the scale of the challenge now being experienced. Tactical savings and efficiencies alone will not deliver the scale of reduction required to meet the legal obligation of a balanced budget. The strategy sets out what is needed, including cash limited budgets, service transformation and a review of key costs drivers.

A criterion of 'purposeful investment' will be applied when reviewing all existing and proposed future capital programme items. This is to ensure investment is focused on delivering value for money for the council and its benefits are fully considered, taking account of the financial challenges the council faces. The purposeful investment criteria are as follows:

1. Does it reduce revenue expenditure/increase income in the current year or future years?
2. Does it stop a potential financial pressure in future years?
3. Does it have a significant impact on the lives of residents? In particular does it provide:
    a) Solid Return on Investment (e.g. generating significant external funding/investment or inward returns from the investment to the council)
    b) A major element necessary for the achievement of the Corporate Plan
    c) A key commitment of the Administration

We are committed to being proactive in the budget challenges, learning from other councils nationally who have faced similar challenges. An Improvement Board has been set up with external subject matter experts providing challenge and overseeing the progress to a sustainable budget. We have also implemented a cost control panel for 2023/24, which has put strong controls on the council's expenditure. By acting transparently, we aim to identify and take further difficult decisions that will be needed in a planned and effective manner that minimises the potential for disruption.

Other actions that have been undertaken to achieve our aims include:

- Cash limited budgets have been introduced and savings targets issued.
- Cabinet and the Executive Management Team (EMT) have held deep dive and 'star chamber' style challenge sessions throughout the year to identify and review cost control measures and savings proposals.
- Ensuring all savings proposals are supported by clear delivery plans with a focus on delivering prior to the start of the financial year.
- The introduction of a clear status rating for Cabinet and EMT to be aware of when considering proposals.
- The introduction of a finance opinion (on behalf of the S151 Officer) and completed in conjunction with the Executive Director, regarding achievability of saving when considering proposals.
- A short monthly monitoring statement has been reported to Cabinet to complement the more detailed quarterly monitoring report.
- The implementation of a signed accountability statement for budget holders, to support the introduction of cash limited budgets and the duty to manage within that resource.
- The Financial Procedure Rules (FPRs) have been amended to reflect the new Financial Strategy and reinforce sound financial governance.

Context

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.

Southampton City Council Corporate Plan 2022-2030

The MTFS is framed by the council's Corporate Plan which sets out the direction for the council 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 three 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 three goals set out in the plan are:

1. Proud and prosperous city
2. Strong foundations for life
3. Successful, sustainable organisation

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.

Other Major Strategies

Customer access strategy 2023-2028

This strategy is currently in draft and will be recommended for approval at Cabinet in the near future. The draft strategy sets out the vision:

We want to put our customers at the heart of everything we do, reflecting their feedback in the design and delivery of our services to ensure all customer experiences are easy, effective, and convenient.

The draft 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 at the heart of what we do;
- Aim to resolve enquiries at first contact;
- Be clear about expectations and keep customers in the loop; and
- Every interaction matters

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.

A new digital and IT strategy is currently being developed and will come forward to Cabinet for approval in the near future.

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.

Key Financial Strategies

Capital Strategy

The Capital Strategy provides an overview of the council's Capital Programme, Treasury Strategy, Non-Treasury 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 to make use of this flexibility to finance revenue costs from capital resources.

In December 2023 the government issued a “call for views” on options for the use of capital resources and borrowing to support and encourage ‘invest-to-save’ activity and to manage budget pressures without seeking exceptional financial support (see the national economic and public expenditure plans section below). The Flexible Use of Capital Receipts Strategy will be reviewed if the government implements these wider flexibilities.

Treasury Management Strategy

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Executive Director Corporate Services to make decisions on the management of the 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, 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.

External Funding Strategy

Southampton City Council is developing a rigorous and innovative approach to grants and external funding that will benefit both the city and the council. The ambition is to develop a culture of securing funding that supports the priorities of the Corporate Plan and supports purposeful investment to mitigate revenue budget pressures. To do this the Council aims to build confidence and skills to secure external funding, identify opportunities for collaboration, and to promote robust governance and resource planning. An internal Grants and External Funding Strategy (2024-27) has been developed and includes the rational for this approach, priorities, associated action plan and details how we will achieve these through an External Funding Framework focusing on four areas: developing the knowledge and skills of staff, enhancing the council's influence and collaboration, ensuring funding is impactful through bid development and delivery, and establishing effective governance, funding tools and best practice. Successes achieved over 2023 include: Safer Streets Fund Round 5 £330k, Net Zero Living: Pathfinder Places (Phase 2) £160k, Fostering Recruitment and Retention programme c£2M, Million Hours Fund £3k, DfE Mentoring & Befriending Grant funding £418k, Violence Reduction Fund £20k, Emerging Needs Fund £25k and National Institute for Health and Care Research (NIHR) Health Determinants Research Collaborations (HDRCs) Call £5M.

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 MTFS where it has been possible to make a financial assessment.

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 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).

Life expectancy at birth in Southampton is falling slightly when compared to the England average, for males the average in Southampton is 78.3 years and female life expectancy is 82.5 years. The over 65 population is set to increase by 18.7%, or 7,070 people, between 2022 and 2029, with the over 75 population set to increase by 20.2%, or 3,824 people. Looking at longer term projections, between 2018 and 2043, based on past trends, the over 65 population is predicted to increase by 35.0% or 11,715 people from 33,508 in 2018 to 45,223 in 2043. The over 90 population is predicted to rise by 67.8% percent from 1,804 in 2018 to 3,028 in 2043. Southampton's population is predicted to rise by 7.1% by 2043.

Socio-Economic Factors

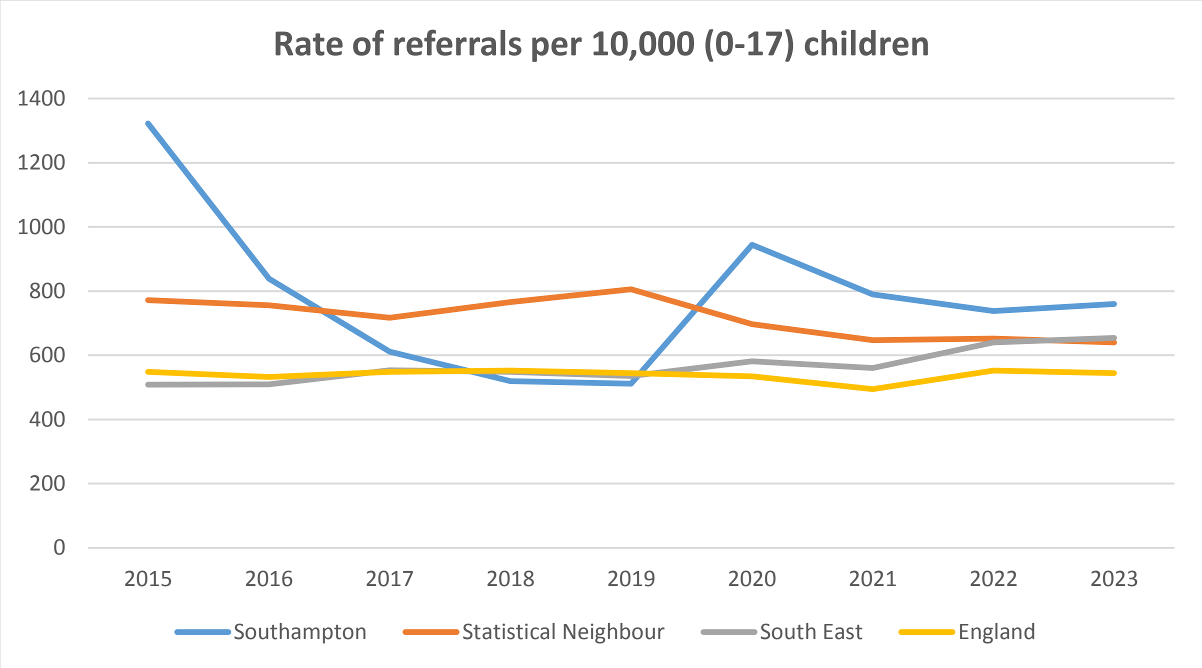
Southampton is ranked 55th on the overall Index of Multiple Deprivation (IMD) 2019 out of the 317 Local Authorities in England (1 equals the most deprived). Previously for IMD 2015 Southampton ranked 54th so has become relatively less deprived. 7 out of 16 wards have some areas which are within the 10% 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.

Referrals into Children Services

The trend since 2015 was a reducing rate of referrals until 2020, when there was a significant spike for Southampton linked to the COVID pandemic. Since then, the trend has been reducing but not to pre-pandemic levels. Work is underway with partners through the Safeguarding Partnership and Team Around the School activity to review the application of thresholds for referrals and the Family Safeguarding model being introduced in June 2024 will underpin this. Our rate at the end of 2023 was the lowest it has been since 2020, and we have a target of 650 to bring us closer to statistical neighbours.

Rate of referrals per 10,000 (0-17) children

Measure	2015	2016	2017	2018	2019	2020	2021	2022	2023	December 2023
Southampton	1322.2	839.1	610.9	519.4	511.1	943.9	789.9	738.1	759.8	720
Statistical Neighbour	771.78	755.47	716.93	765.85	805.28	696.9	646.76	651.68	640.06	
South East	509	509.5	553.8	548.4	535.8	581.1	560.6	640.5	654.6	
England	548.3	532.2	548.2	552.5	544.5	534.8	494.3	552.9	544.5	

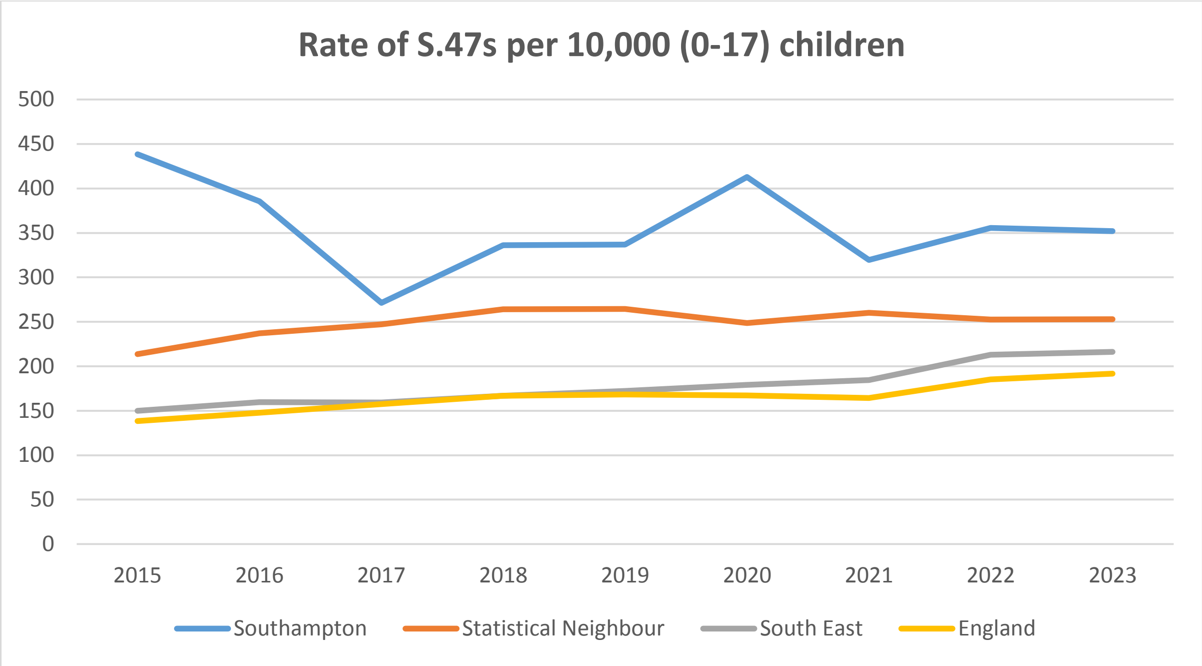


Rate of Section 47 Child Protection Enquiries

Our rate of S.47s has reduced since 2020 but remains above our statistical neighbour average suggesting that we are intervening at a statutory level too frequently with families. However, the rate at the end of 2023 was 301, the lowest since 2017, so the right trajectory. The National Framework and Working Together 2023 both refocus on relationship-based approach with families that set them at the centre of practice that is collaborative and differentiates clearly between families in need of support and children in need of protection. This cultural shift will be built on with the Family Safeguarding work jointly with Hertfordshire.

Rate of S.47s per 10,000 (0-17) children

Measure	2015	2016	2017	2018	2019	2020	2021	2022	2023	December 2023
Southampton	438.3	385.5	271.3	336.3	337	412.7	319.5	355.7	352	301
Statistical Neighbour	213.61	237.22	247.11	264.03	264.62	248.62	260.02	252.45	253	
South East	150	159.8	159.4	166.7	172.1	179.1	184.4	213.1	216.1	
England	138.5	147.7	157.6	166.9	168.3	167.2	164.4	185.2	191.6	

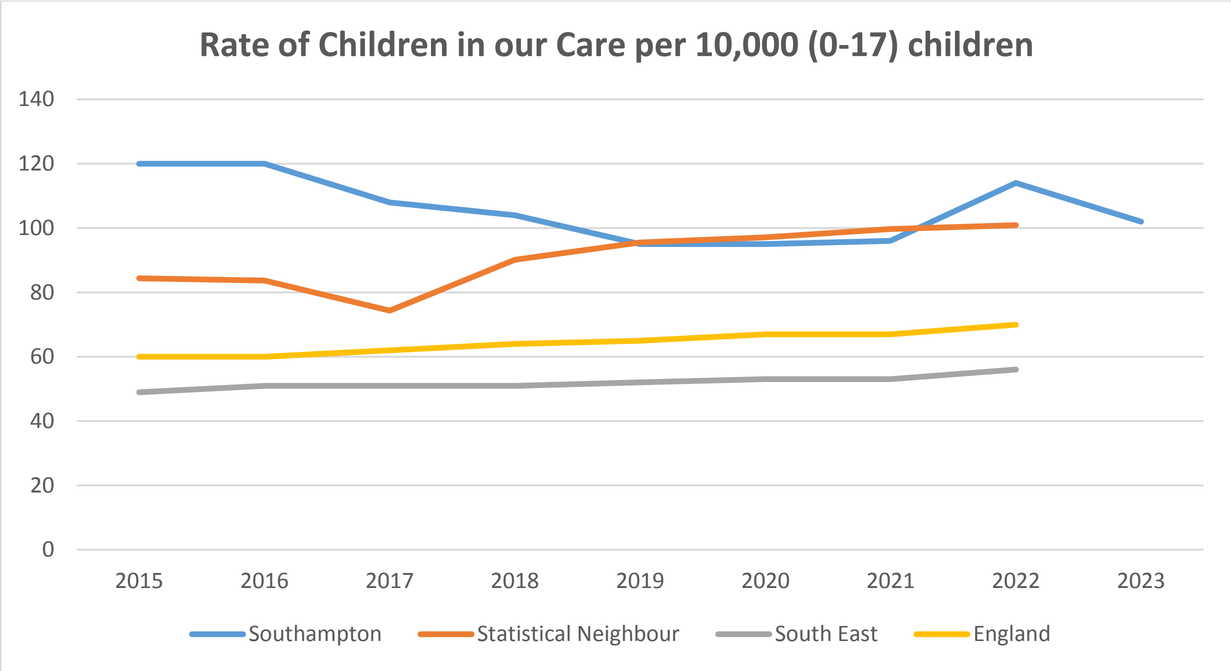


Rate of Children in our Care

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). Since 2017, statistical neighbour rates of children in care have been rising, as has the South East region and England averages. During this time, the Southampton rate was reducing, until 2021/22 when a group of children at risk needed to be accommodated (following on from improvement work and changes in leadership) pushing the rate to 114. Since then, extensive work on reunifications and keeping children safe within their families has resulted in the rate steadily reducing, returning to 102. The Family Safeguarding Model is expected to achieve 40 less children a year coming into care, which is in line with the National Framework 2023 principle that children should remain within their families where safe to do so.

<u>Rate of Children in our Care per 10,000 (0-17) children</u>

Measure	2015	2016	2017	2018	2019	2020	2021	2022	December 2023
Southampton	120	120	108	104	95	95	96	114	102
Statistical Neighbour	84.4	83.7	74.3	90.2	95.5	97.1	99.7	100.9	
South East	49	51	51	51	52	53	53	56	
England	60	60	62	64	65	67	67	70	



The number of children placed within our own foster care households has decreased over 2023 from 220 in December 2022, to 205 in December 2023. This is in line with the reduction in children in our care over that period. In the same period, children placed in Independent Fostering Agency (IFA) placements, has reduced from 157 to 133. They remain two or three times more expensive than our own placements. Our recruitment of foster carers has improved with successful campaign towards the end of 2023 and several assessments are currently underway. Our enquiries and conversions to application are now ahead of our close neighbours.

The number of SCC children living in children's homes has steadily reduced from 43 in April 2024 to 35 as of 8 February 2024. The number of these placements peaked at 54 in October 2021. The reduction is due to a focused piece of work enabling children living in a children's home, whose care plan is to live in a family placement, to move to their own extended family or to a foster placement. This is underpinned by a strong reunification framework, promoting comprehensive assessments of birth parents and extended family members, and enabling the safe reunification of children who need and wish to live within their own families. Active care planning is underway for a further six children to leave residential care in a planned way once a suitable match is identified. The national shortage of IFA placements creates challenges when trying to create positive move on plans for this cohort.

During 2024/25, the local authority has firm plans to open two residential units, enabling us to keep children who need a residential care placement close, and ensuring that they remain connected to their friends, families and school.

The overall number of children in care living in residential placements has increased from 73 to 77 over the course of 2023/24. This DfE definition includes a range of placements including children's homes and semi-independent accommodation for 16/17-year-olds.

<u>Physical-environmental factors</u>

Housing

In Southampton 29% of residents live in privately rented accommodation, which is higher than 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 16,304 managed by the council with 8,172 households on its housing waiting list. In the last 12 months, the number of decent homes has remained broadly similar at 54.3% of the housing stock. Sector-wide restrictions in the supply chain and labour market are affecting the delivery of several 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.

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) 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 2024/25 the provisional combined Better Care Fund budget is £161.6M, comprising £97.8M for the ICB and £63.8M for the Council.

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, they are often difficult to renegotiate to reduce expenditure. Nevertheless, the Council has already realised savings in previous financial years. Further savings opportunities relating to these contracts are being actively explored. The financial health of our 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 included in the Strategic Procurement Programme.

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'. Although the cost of living affects all residents, it is expected that more deprived households are experiencing greater hardship. In response to the crisis Southampton City Council has taken a city wide partnership approach; supporting and promoting the work of agencies and groups across the City. The council's contribution has been coordinated through a cost of living operational group which was set up in Autumn 2022 and chaired by the Director of Public Health, previously meeting monthly and focused action across four separate, but connected workstreams, namely: communication and community engagement, working together, calls to action and data intelligence and evidence. Officers across council services attend. The council's cost-of-living residents survey undertaken in Spring 2023 (completed by over 4,000 residents) helped agencies better target resources to the most in need. Activities have been delivered on food, including cook and eat sessions, warmth, fuel and energy. Southampton City Council's libraries have been providing warm spaces and benefits including supporting people to pay what they can, and providing advice on money management and mental health. The operational group now meets every other month and ensures delivery through council business as usual rather than a previous emergency response approach. Residents can receive the latest information and links to relevant sites here: Getting help with the cost of living (southampton.gov.uk). Cost-of-living leaflets were produced earlier this year and are still in circulation within communities and shared at community events, along with translated versions.

Health Determinants Research Collaboration

The National Institute for Health and Care Research (NIHR) has awarded £5M over 5 years to Southampton City Council, in partnership with the University of Southampton, Solent University and Southampton Voluntary Services (SVS), to establish a Health Determinants Research Collaboration (HDRC) in the city.
HDRCs are innovative local government and academic partnerships intended to boost research capacity and capability in local authorities. HDRCS aim to embed a culture of evidence-based decision-making on policies and programmes which impact health and health inequalities. Southampton becomes one of 11 local authority areas to establish a HDRC in January 2024, this is in addition to 13 HDRCs that were funded in 2022/23. The HDRC in Southampton will be hosted by the council, working with the universities and SVS to combine expertise on the wider determinants of health. The vision of Southampton's HDRC is to reduce health inequalities by working with communities to create a research evidence-based environment and culture in the city council.

Local Enterprise Partnership (LEP) Integration

On the 4 August 2023, the Department for Levelling Up, Housing and Communities sent a letter to LEP Chairs, Combined Authority Mayors and Local Authority Leaders outlining that from April 2024, the Government's funding of LEPs will cease. The Government will instead support upper tier local authorities to deliver the functions currently delivered by LEPs. This empowers democratically elected local leaders to work with the private sector to support local businesses and drive local economic growth. Upper tier local authorities will be provided with revenue funding to deliver the functions previously delivered by LEPs – namely business representation, local economic planning, and the delivery of Government programmes where directed. This core funding is separate to any programme funding that may be provided to support the delivery of, for example, Growth Hubs or Careers Hubs.

On the 16 October 2023, the Government distributed a Local Authority / LEP Integration plan template to be completed by the end of November 2023. In collaboration and agreement with Portsmouth City Council, Isle of Wight Council and the Solent LEP, an integration plan was submitted to continue LEP functions in the Solent region. Separately, Hampshire County Council submitted an Integration Plan for the Hampshire County area. Eligibility for funding is conditional on LEP functions being delivered over sensible functional economic areas or whole county geographies. Multiple upper tier local authorities can work together over a single functional economic area, as is proposed between Southampton, Portsmouth, and the Isle of Wight. Further talks and concrete arrangements will need to be confirmed by Southampton City Council and the other upper tiered authorities of the Solent prior to April 2024.

<u>New Financial Policies</u>

Fees & Charges Policy

The following set of principles regarding fees and charges were approved by Full Council in July 2023:

- The council's discretionary fees and charges (and concessions against these charges) will be set in accordance with the following general principles:
  - Fees and charges will, in general, be increased annually in line with the Consumer Price Index (CPI). Normal expectation would be to apply the September CPI, unless there are exceptional reasons.
  - The council will seek to recover relevant full costs in setting its charges.
- All charges will therefore increase annually by the Consumer Price Index (CPI) unless there are exceptional reasons not to do so. A business case is required for any area considered an exception to this inflationary increase where there is no planned increase, or the increase proposed is below CPI. This would be considered by Cabinet or Cabinet Member in consultation with the Executive Director Corporate Services and will include the application of subsidies or concessions which will result in a reduction in the recovery of income. Market forces may dictate swift changes to fees and charges and to ensure commercial flexibility, where an increase above CPI is applied, a business case would not be required.
- Reasonable notice should be given to service users and any necessary consultation, where applicable, will also be undertaken before a final decision in line with the council's consultation policy.

- A full schedule of fees and charges, both statutory and discretionary, will be included with the annual budget for review by Full council at its budget setting meeting. This will ensure a transparent, consistent and centralised approach to the annual review and approval of fees and charges.

Charges related to Adults Social Care will have a separate policy, due to the more complex nature of the charges which assess income and benefit entitlement. However, as a principle, when it comes to the annual uplift, they will be looked at from a similar viewpoint i.e. linking an expected annual increase to increases in relevant care provider costs and uprating of state benefits.

A schedule of fees and charges, which have been updated in accordance with the policy, is available as a Members' Room Document to the main budget report.

Debt Policies and Debt Management

The council has drafted a corporate debt policy and combined council tax and business rates recovery policy (annexes 6 and 7). The aim of the policies is to deliver a consistent approach across the council to dealing with debt and the recovery of arrears. This includes trying to stop arrears from happening, breaking the cycle of debt and ensuring all debts owed to the council are recovered; whilst ensuring that citizens in financial difficulties are provided with appropriate assistance and individual circumstances are considered when taking recovery action.

The council's Projects and Change Team is developing a new target operating model for debt recovery across the authority. This will centralise the management of debt, enabling a clearer focus on this activity and improving the customer experience by taking a holistic view of those residents and business who are in multiple debt. This will reduce the 'touch points' for those customers who currently may be in communication with more than one department about their circumstances. Prevention will play a key part going forwards, for example, increasing the options for customers to pay in advance thus avoiding debt happening in the first place.

In parallel with this, the council is also improving debt reporting through the introduction of a monthly report (aimed at Director level and above) that provides detail of aged debt by Directorate and Cabinet Member portfolio. Prior to this, information was provided at an overall level and not broken down into this level of detail. This increased reporting has improved transparency. This report is the first phase as information is held in more than one system. The monthly report is created using details from one of the main council systems. Discussions are ongoing about how to add information held in other systems to this one report, to reduce separate reporting.

Revenue Reserves Policy

Revenue reserves provide cover for risks and unforeseen events and form a key part of the council's financial resilience and maintaining its financial sustainability. In response to the issues raised regarding their use in recent years a policy has been developed which more clearly sets out the purpose of each reserve, how it can be used, the basis for assessing adequacy of reserves and the approach being taken to replenish reserves. The policy is set out in annex 8.

National economic and public expenditure plans

The MTFS is set within the context of national economic and public expenditure plans, and national legislation setting out the council's ability to borrow and to raise income from council tax and other sources.

<u>Autumn Statement 2023</u>

The government published its Autumn Statement on 23 November 2023, setting out spending plans for 2024/25 and guidelines for the medium term. In the "Autumn Statement for Growth" the Chancellor set out the government's priorities of "backing British business" and "making work pay". The key points relevant to local government were:

- Reform system to allow Local authorities to recover full cost of business planning applications if they make quick decisions but will have to return fees if timelines not achieved.
- £110 million is being provided through the Local Nutrient Mitigation Fund to support Local Planning Authorities to deliver schemes to offset nutrient pollution that will allow additional developments.
- £450 million announced for the Local Authority Housing Fund (Round 3).
- New permitted development right to turn a single dwelling into two flats. This will be implemented in 2024 following consultation early in the New Year.
- End date for tax relief for Freeports extended by 5 years. We expect this to apply to Solent Freeport. The Department for Levelling Up, Housing & Communities (DLUHC) will publish a Freeports Delivery Roadmap in December, outlining the steps the Government will take to ensure Freeports are best able to capitalise on the extensions announced.
- Full details of departmental allocations are listed here.
- Guidance for the Local Government Pension Scheme (LGPS) will be revised to implement a 10% allocation ambition for investments in private equity. The government is also establishing a March 2025 deadline for the accelerated consolidation of LGPS assets into pools and setting a direction towards fewer pools exceeding £50 billion of assets under management.
- DLUHC funding simplification plan announced in 2023 will come into force from January 2024 to simplify local government funding.
- No further funding increases for local government beyond those that have been previously announced.
- The 40 basis point discounted Public Works Loan Board (PWLB) rate for Housing Revenue Account borrowing has been extended for a further year to June 2025.
- Over the medium term, planned departmental resource spending will increase by 1% a year on average in real terms, which implies unprotected departments such as local government would face real terms cuts.

Policies directly affecting residents included:

- Universal Credit and other working age benefits will be increased by 6.7% in line with September 2023's inflation figure.
- Local housing allowance rates will be unfrozen and increased to the 30th percentile of local market rents from April 2024.
- From April 2024 the government will increase the full new state pension by 8.5% to £221.20 a week, worth up to £900 more a year.
- Employee National Insurance contributions cut from 12% to 10% from 6 January 2024.
- Back to work process and work capability assessment to be reformed to encourage disabled people into work.
- National Living Wage increased by 9.8% in line with low pay commissions recommendation to £11.44.

Business rates measures:

- Freeze of small business rates multiplier for 2024/25 and extension of current 75% Retail, Hospitality and Leisure relief for another year to support independent shops and pubs – local authorities will be fully compensated for the loss of income. Standard business rates multiplier to increase by inflation.

Devolution of powers to local government:

- Level 2 devolution powers will be offered to councils that cover a functional economic or whole county area, and meet relevant criteria set out in the Levelling Up White Paper, where there is local consent.
- A new level 4 framework has been published for extending devolution in Level 3 Mayoral Combined Authorities. This provides new powers that will be drawn down which are based on the trailblazer deals negotiated with Manchester and West Midlands CAs.

Local Government Finance Policy Statement 2024/25

On 5 December 2023 the government published a policy statement outlining its intentions for the 2024/25 local government finance settlement. This builds on the principles set out in the policy statement issued in December 2022. The main features of the policy statement relevant to the city council are:

- 2.99% maximum increase in “Core” Band D council tax and 2% maximum increase in adult social care (ASC) precept.
- Baseline Funding Level (BFL) and Revenue Support Grant (RSG) - local authorities’ BFL allocations will be uplifted by the increase in the standard business rates multiplier (6.62%), apportioned using proxy data from the Valuation Office Agency. Compensation for freezing the small business rates multiplier will come through S31 grant. Further detail on how the settlement will be changed to accommodate the decoupling of the business rates multipliers will be released prior to the provisional local government finance settlement. RSG allocations will be uplifted in line with the Consumer Price Index.
- Social care grants – increases in social care grants are in line with the 2022 Autumn Statement announcements. In addition, £205 million for the second year of the Market Sustainability and Improvement Fund (MSIF) Workforce Fund announced in July 2023 will be rolled into the existing MSIF in 2024/25. There will continue to be grant conditions placed on these grants.
- 3% Funding Guarantee - this was introduced in 2023/24 to ensure every authority had a 3% increase in government funding (change in Core Spending Power excluding Band D) and it will continue into 2024/25.
- Services Grant – This funding was first introduced in 2021/22 and will continue to operate in 2024/25 but with a reduced overall amount.
- New Homes Bonus (NHB) – This scheme had been expected to cease, however it will continue in 2024/25 but with no future legacy payments.
- The statutory override for the Dedicated Schools Grant will continue until 31 March 2026.
- Indicative 2024/25 Public Health Grant allocations were published alongside the policy statement.

Local Government Finance Settlement 2024/25

The 2024/25 provisional settlement was announced on 18 December 2023, providing details of how resources announced in the November 2022 Autumn Statement, reconfirmed in the 2023 Autumn Statement, have been allocated for 2024/25. The key principles that were set out in the policy statement issued on 5 December 2023 remain unchanged in the settlement announcement. The finance settlement is for 1 year only and there are no indications regarding resources for future years. 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 £3.9Bn (£2Bn of which is from council tax increases), 6.5% on average in 2024/25.
- Council tax - 2.99% maximum increase in the “core” council tax for 2024/25 and a 2% adult social care (ASC) precept.
- Business rates – the freezing of the small business rates multiplier announced in the 2023 Autumn Statement is fully funded with compensation to authorities based on a Consumer Price Index (CPI) uplift. Updates to adjustments to tariffs/top-ups for the 2023 Business Rates Revaluation have been made to

reflect the final rating list as at 1 April 2023 and 2022/23 business rates outturn, in line with the methodology consulted upon ahead of last year's finance settlement.

- Revenue Support Grant (RSG) - allocations have been uplifted in line with the September 2023 Consumer Price Index (6.62%).
- Social Care Grant – An additional £532M of additional funding has been allocated based on the Adult Relative Needs Formula (RNF) and a further £160M 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). This grant is for adults and children's social care.
- Adult Social Care grants – Additional resources for 2024/25 for adult social care were announced in the 2022 Autumn Statement. The Adult Social Care Discharge Fund has been increased by £200M compared to 2023/24 and the ASC Market Sustainability and Improvement Fund by £283M. An additional £205M has been rolled into the ASC Market Sustainability and Improvement Fund for the second year of the Workforce Fund grant announced in July 2023 (£365M for 2023/24 and £205M for 2024/25). These grants are ring-fenced and come with conditions regarding performance and use of the funding to support improvement against the government's objectives.
- Services Grant – This has reduced by £406M from £483M in 2023/24 to £77M in 2024/25. The reduction is to fund grant increases elsewhere within the settlement and a small proportion has been held back as a contingency. This reduction was the main surprise in the settlement - there were indications in the policy statement that ministers were considering reducing the grant but nothing was made explicit.
- 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 – This grant was introduced in 2023/24 to ensure every authority has an increase in Core Spending Power of at least 3% (before council tax). The grant has increased by £64M from £133M in 2023/24 to £197M in 2024/25. This mainly benefits councils with no social care responsibilities.
- Exceptional Financial Support - where councils need additional support from government as part of the Exceptional Financial Support framework, the government will consider representations from councils on council tax provision.
- Flexible Capital Receipts – the ability to use capital receipts to fund revenue costs of projects to reduce costs and improve efficiency has been extended to March 2030.

The provisional settlement was subject to a consultation period which ended on 15 January 2024. In response to the consultation the government announced £600M of additional funding on 24 January 2024 – £500M additional Social Care Grant and £100M to increase the funding guarantee from 3% to 4%, increase Rural Services Delivery Grant by £15M and some other smaller changes. In announcing the additional funding on 24 January 2024, the government also set out its requirement for local authorities to produce productivity plans showing how they will improve service performance and reduce wasteful expenditure. The final settlement was published on 5 February 2024, ahead of the House of Commons debate on 7 February 2024, confirming the revised allocations.

For Southampton the impact of the settlement in terms of grant funding is included in the council resources outlined in the Local Financial Forecast.

<u>Local Authority Capital Flexibilities</u>

Alongside the provisional local government finance settlement, on 18 December 2023 DLUHC announced the government would engage with councils to identify and develop options for the use of capital resources and borrowing to support and encourage invest-to-save activity, and more flexibilities to use capitalisation without the requirement to approach government. A call for views on these capital flexibilities opened on 19 December 2023 and closed on 31 January 2024. At a high level the options can be categorised as:

- Supporting invest-to-save activity – increasing the flexibilities to use capital receipts and borrowing to finance the costs of transformation and efficiency projects.

- Local management of budget pressures – providing greater flexibilities on the use of capital receipts, including the scope to meet general budget pressures, and potential additional flexibilities where the proceeds relate to the sale of investment properties.

Funding Simplification Doctrine

On 10 January 2024 DLUHC published its Funding Simplification Doctrine, part of the government's plans to simplify local government funding.

The doctrine covers all new funds made available to local authorities by central government and requires all government departments developing new funding within this scope to follow the doctrine's guidance. Most significantly this includes the encouragement of allocative approaches, except where competitive funds make sense. The doctrine will promote 4 principles:

- Building from existing programmes: where practicable, new investment should be delivered through an existing funding programme rather than creating a new funding programme.
- Selecting a distribution methodology that best achieves funding objectives: if an activity cannot be delivered through an existing programme, consideration should be given to the use of allocation. The option that is best placed to target a specific type of funding or set of desired outcomes and would deliver better value for money should be chosen.
- Testing: prior to deployment of any new funding stream, government departments should consider feedback from a selection of councils and/or local authority associations.
- Data: in any case, requirements for local authorities to provide data to government departments should be aligned to existing requirements where possible. Departments should work with local authorities to design a monitoring regime that provides accountability, insights and enables robust evaluations without creating needless bureaucracy.

Financial outlook for 2025/26 and after

The 2024/25 local government finance settlement was for 1 year only, with no indication of resources for future years. The government’s spending plans published in the 2023 Autumn Statement suggest that prospects for local government finance settlements in the next spending review period look very tight. There is no change in the overall planned increase in Resource Departmental Expenditure of 1% in real terms. This is likely to mean real-terms cuts for unprotected services, including most of local government. The Chancellor announced a target of 0.5% annual productivity improvements for the public sector in the Autumn Statement, which may provide justification for lower funding allocations in future years. In the December 2022 local government finance policy statement the government confirmed that changes to the local government finance system and a reset of locally retained business rates would not be implemented in the lifetime of this parliament. In addition, a 2-year delay to the adult social care charging reforms was announced in the 2022 Autumn Statement and the funding that had been set aside for this was repurposed. Any decisions on the funding to be made available for implementing the reforms was also deferred to the next parliament. It remains to be seen whether the reforms will go ahead and, if so, whether government funding will be sufficient to meet the costs. Assumptions have been made in the local financial forecast about future finance settlements and a business rates reset. The local financial forecast does not include any impact of a change to the local government finance system for needs and resources and the adult social care charging reforms are assumed to be cost neutral pending further details. Pay and price inflation, higher interest rates and major demand pressures, particularly across adults and children's social care, remain key factors in the sustainability of local government finance.

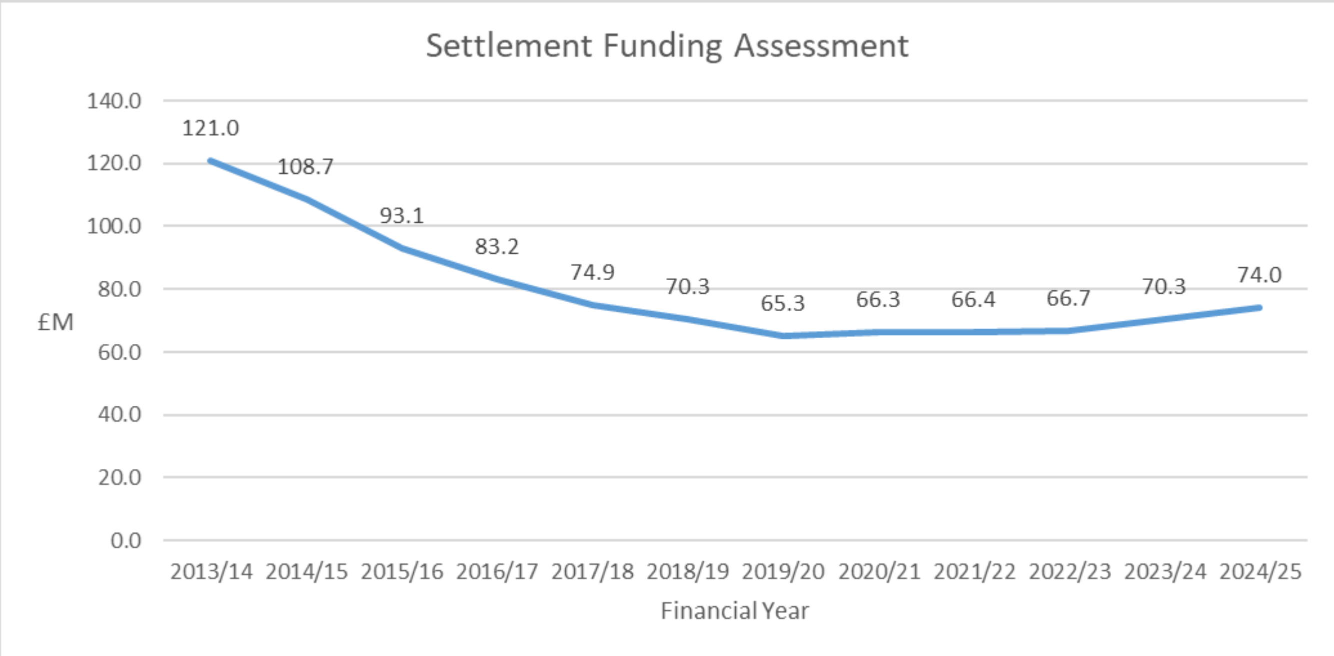
Local Financial Forecast

Financial trends

<u>Settlement Funding Assessment for Southampton City Council</u>

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 2024/25 there has been an increase in the SFA from the inflationary uplift to the business rates baseline funding level for the share relating to the standard multiplier and the increase in revenue support grant in line with the consumer price index. The increase in SFA is below that of core spending power, with more resources 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.

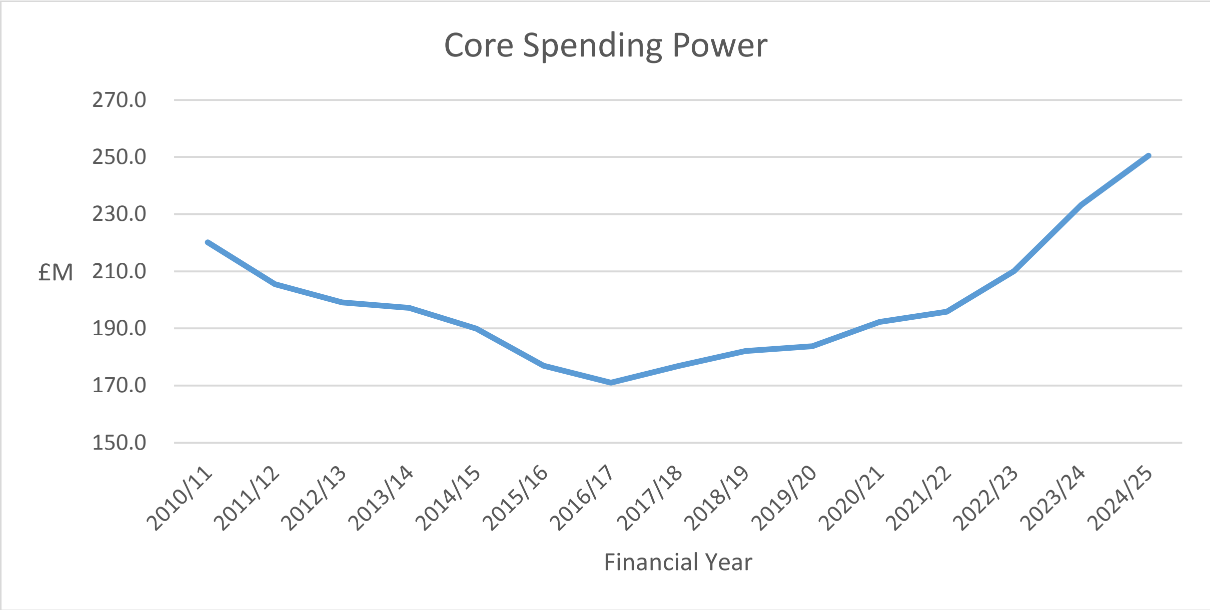
CHART: SETTLEMENT FUNDING ASSESSMENT



<u>Core Spending Power for Southampton City Council</u>

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 2024/25 is £250.6M, an increase of £17.3M compared with the adjusted 2023/24 figure (7.4%). 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 2024/25) shows that in cash terms the resources available to the council only went above the 2010/11 level in 2023/24. The 14-year cumulative cash increase since 2010/11 is £24.8M or 10.6%, compared with an England average of 15.7%. In real terms the council has seen a £68.2M or 21.4% reduction in resources since 2010/11, compared with an England average of an 18.1% reduction.

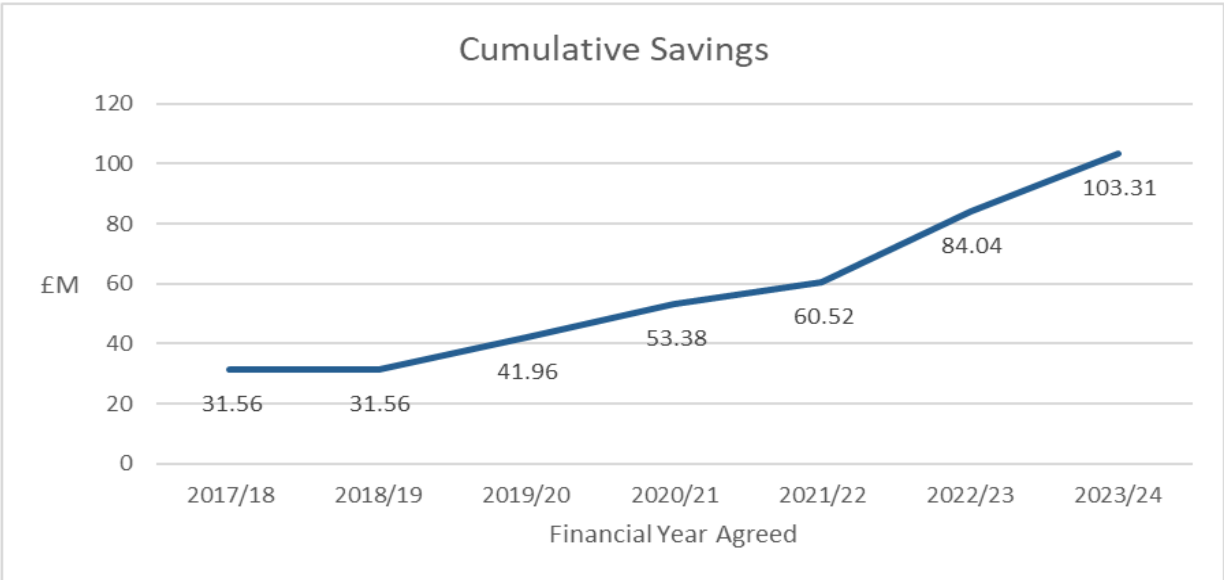
CHART: CORE SPENDING POWER



<u>Savings History for Southampton City Council</u>

In response to reduced government funding and service expenditure pressures, the council has agreed some £103M of General Fund savings over the last 7 years (see following chart), which comes on top of substantial savings since government austerity measures were introduced.

CHART: SAVINGS HISTORY



Against a challenging economic backdrop and in the face of high demand for services, the council has been unable to identify sufficient savings to achieve a balanced budget for 2024/25 without the need for government support. A transformation programme is being developed to deliver the level of savings now required to achieve financial sustainability.

Council resources 2023/24 to 2027/28

The table below summarises the Council's key funding assumptions for the MTFS. Percentages indicate forecast year-on-year changes. Estimates of general funding are shown in the Medium Term Financial Forecast at Annex 1).

TABLE 1: SUMMARY OF KEY FUNDING ASSUMPTIONS

2023/24	Item	2024/25	2025/26	2026/27	2027/28
£1,726.47	Increase in Core Council Tax Charge	2.99%	2.99%	2.99%	2.99%
£219.20	Increase in Adult Social Care Precept	2.00%	0.00%	0.00%	0.00%
67,057	Council Tax Base (No. of Band D equivalents)	66,989	67,725	67,672	67,543
49.9p	Increase in Small Business Rates Multiplier	0.0%	3.2%	2.1%	2.0%
51.2p	Increase in Standard Business Rates Multiplier	6.6%	3.2%	2.1%	2.0%
£12.88M	Change in Revenue Support Grant	6.6%	-14.0%	-11.1%	-12.1%
£5.36M	Change in Top Up Grant*	13.7%	3.2%	-30.6%	2.0%
£0.21M	Change in New Homes Bonus	-83.0%	-100.0%	0.00%	0.00%
£21.82M	Change in Other Non-Ringfenced Grants (excluding business rates compensation grants)	17.9%	-0.3%	-0.3%	-0.1%

*A technical adjustment has been made to Top Up Grant for 2024/25 for the 2023 rates revaluation

<u>Council Tax and Adult Social Care Precept</u>

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 2024/25 without the need for a local referendum. As set out in Table 1 above, increases are being applied in 2024/25 in line with those referendum limits. The government has given no indication of council tax referendum limits that will apply beyond 2024/25, which will be a decision for the next parliament. For planning purposes, the working assumption for 2025/26 and future years is a 2.99% 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. For 2024/25 onwards the collection rate has been reduced from 98.5% to 98.25% to reflect more recent experience in collecting council tax, hence a small reduction in the tax base for 2024/25 compared with 2023/24. The tax base includes estimates for additional premiums for properties that have been empty for more than 12 months (from 2024/25) and second homes (from 2025/26), the effect of which is expected to reduce over time as behaviours change. The 2021/22 tax base assumed an increase in the number of local council tax support 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 2022/23 tax base, as shown in the chart below.

CHART: CHANGE IN COUNCIL TAX BASE

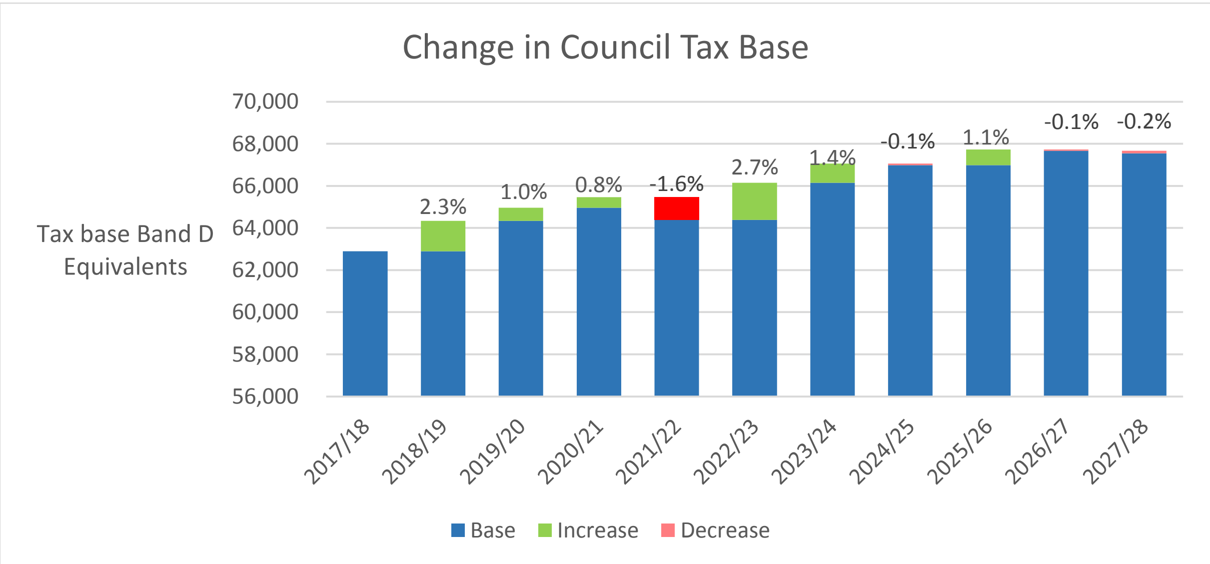


Table 2 below shows the council tax and adult social care precept income that has been included in the medium term financial forecast at Annex 1.

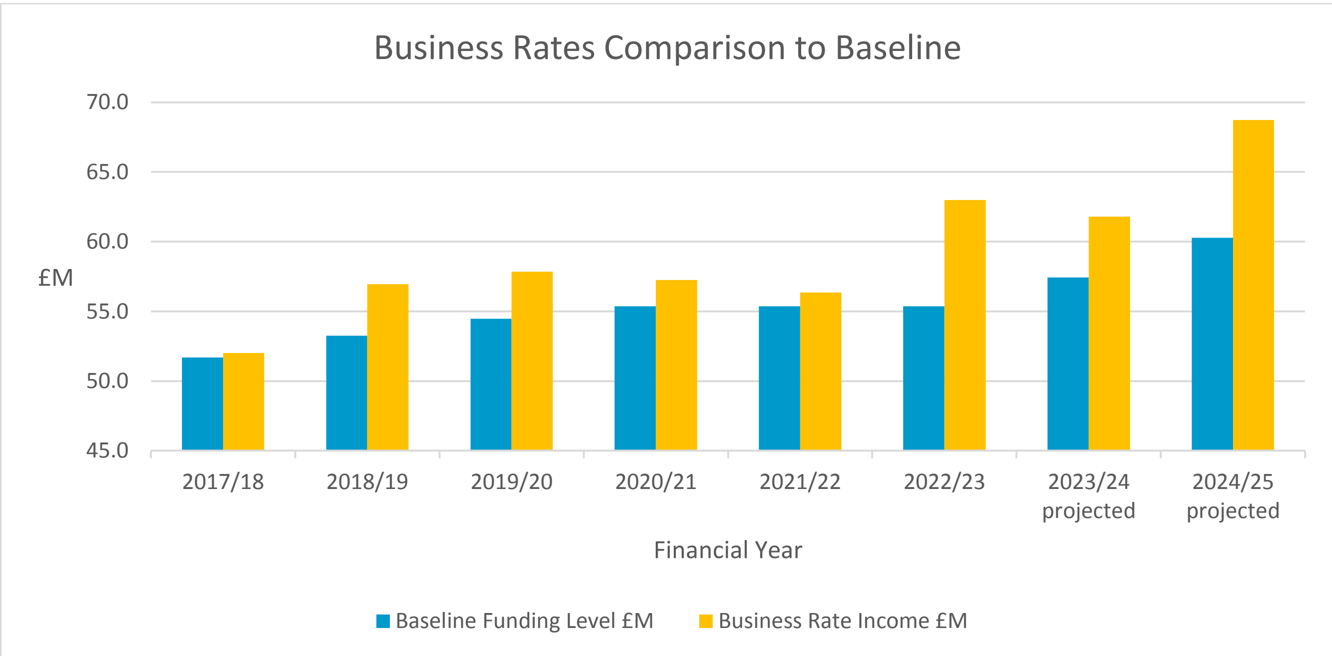
TABLE 2 COUNCIL TAX INCOME

	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M
Council Tax – General Precept	104.43	109.25	112.94	116.61
Council Tax – Adult Social Care Precept	17.00	17.18	17.17	17.14
Total Council Tax Income	121.43	126.43	130.11	133.75

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 economic downturn, 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 Non-Domestic Rating Act 2023 gave power to ministers to decouple the small and standard business rate multipliers. The standard multiplier was previously derived by adding a supplement to the small business rates multiplier, now the multipliers can be set independently. For 2024/25 the government has frozen the small business rates multiplier and increased the standard multiplier by 6.62% in line with the increase in the Consumer Price Index (CPI) for September 2023. Some technical changes have been made to the business rates retention scheme as a consequence of decoupling the multipliers. The MTFS assumes that both multipliers will increase with inflation from 2025/26 onwards as set out in Table 1 above. The Non-Domestic Rating Act 2023 allows for more frequent updates of rateable values, which will occur every 3 years rather than every 5 years, beginning in 2026. The MTFS assumes the impact of the revaluations on the council's income will be neutral, on the assumption that the Top-Up Grant (see later) will be adjusted as with previous revaluations. 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 2017. The level of business rates income is affected by successful appeals and other changes to rateable values as well as unfunded reliefs.

CHART: BUSINESS RATES COMPARISON TO BASELINE



Solent Freeport

The government approved the Solent Freeport in November 2022, for which Southampton has one of the designated tax sites. Freeport status means that normal tax and customs rules do not apply and give varying forms of tariff flexibility. Tax measures and planning concessions at the designated tax sites should help to incentivise private business investment. The MTFS assumes that any growth in business rates in the designated tax site will be pooled for use as agreed by the Freeport.

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. Since 2020/21 the government has applied inflationary uplifts to RSG and for 2024/25 the council's grant has increased by £0.85M in line with the September 2023 CPI increase (6.6%). The MTFS assumes that the settlement funding assessment (SFA) for 2025/26 onwards will remain at the cash amount for 2024/25, as indicated by the spending plans in the government's 2023 Autumn Statement. SFA comprises RSG and business rates baseline funding and as the latter is assumed to increase with inflation RSG is expected to reduce, as shown in table 1. The government has stated that it will not make any changes to how the local government finance system during the remaining life of this parliament. Any updates to needs and resources assessments will not happen before 2025/26 and it is more likely to be 2026/27 at the earliest. Given this uncertainty, the MTFS does not reflect any potential impact of an update to the needs and resources assessments.

Top-Up Grant

As part of the business rates retention scheme the council receives Top-Up Grant for the difference between its baseline funding level (the element of the settlement funding assessment relating to business rates) and its business rates baseline. In 2023/24 the council's Top-Up Grant was adjusted for the 2023 business rates revaluation so that, as far as practicably possible, the council was no better or worse off following the revaluation exercise. This adjustment has been updated for 2024/25 based on 2022/23 outturn data. The council's Top-Up Grant for 2024/25 is £6.10M. Business rates baselines have not been reset since the scheme was introduced in 2013/14. A baseline reset would have a redistributive effect across local authorities and consequences for the Top-Up Grant receivable. The MTFS assumes a reset will occur in 2026/27 and that the council's Top-Up Grant will reduce as a result.

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 a few years ago, 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 2024/25. This grant is being funded via a 'top-slice' of £291M nationally from the resources allocated to local authorities. The council's allocation for 2024/25 is only £0.04M, relating to the element for bringing empty properties back into use, as it didn't achieve the threshold for receiving a growth allocation. It remains to be seen if the NHB scheme will be replaced.

Public Health Grant

The Public Health Grant continues to be a ring-fenced grant to local authorities in 2024/25. Final allocations for 2024/25 were published on 5 February 2024. The Council's allocations since 2018/19 are outlined in Table 3 below.

TABLE 3 PUBLIC HEALTH GRANT

	2018/19 £M	**2019/20 £M**	**2020/21 £M**	**2021/22 £M**	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**
Public Health Grant allocations	16.90	16.52	17.17	17.39	17.88	18.46	18.85

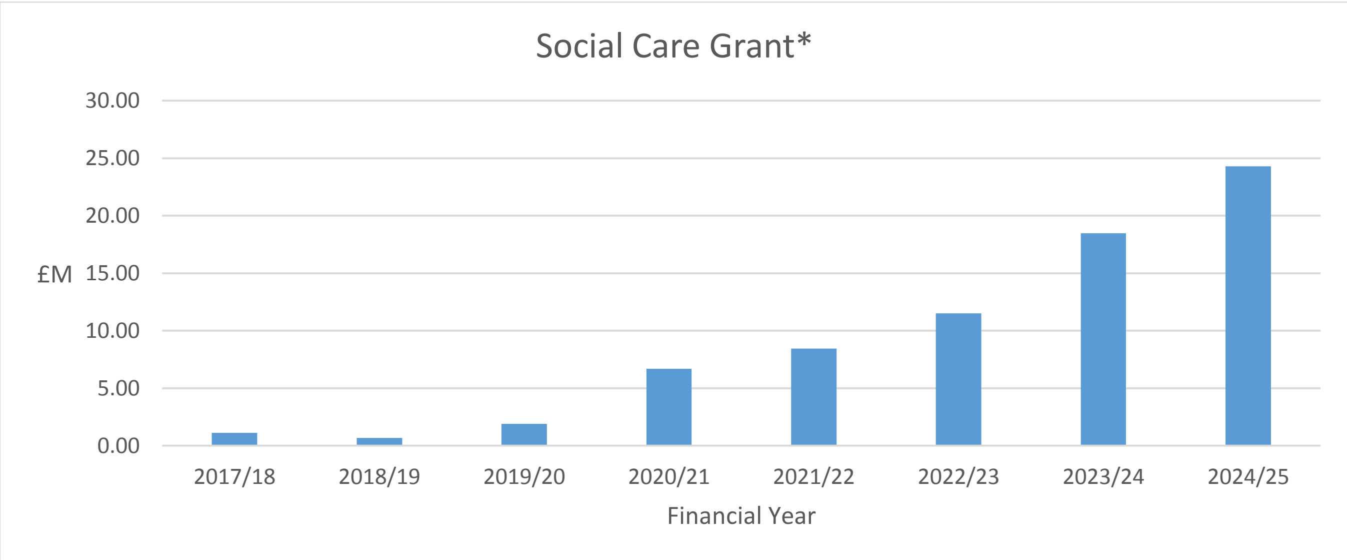
Other Grants

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 £1.7Bn of ring-fenced grant funding for adult social care for 2024/25. In the December 2023 local government finance update the government confirmed an additional £205M for the second year of the Market Sustainability and Improvement Fund (MSIF) Workforce Fund announced in July 2023 would be rolled into the existing MSIF. Allocations to individual local authorities for 2024/25 for the funding were notified in the local government finance settlement, with the council receiving £2.50M of Adult Social Care Discharge Fund and £4.85M of ASC Market Sustainability and Improvement Fund. The Improved Better Care Fund grant allocation for 2024/25 is £10.70M, the same as for both 2023/24 and 2022/23.

The council's Social Care Grant allocation for 2024/25 is £24.30M, including its share of the extra £500M announced on 24 January 2024. Up until 2022/23 the Social Care Grant was unringfenced, however from 2023/24 onwards the government has stipulated that it can only be used to meet spending in adults and children's social care. As the grant can be used across both areas of social care it is treated within the MTFS as general funding. 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

Services Grant, which was new in 2022/23, has been significantly reduced to pay for increases elsewhere in the 2024/25 finance settlement and the council's share is £0.39M. The council has not been allocated any Guarantee funding as its increase in Core Spending Power is above the threshold.

Sensitivity to funding assumptions

Table 4 below shows how much the council's funding would change in 2025/26 if funding assumptions changed by 1%. The figures are provided for 2025/26 as funding for 2024/25 has either been notified in the local government finance settlement or has been set as part of approving the budget for 2024/25.

TABLE 4 SENSITIVITY TO 1% CHANGE IN FUNDING ASSUMPTIONS

	£M
Core Council Tax Charge/Adult Social Care Precept increase	1.21
Council Tax Base	1.26
Business Rates Multiplier	0.69
Revenue Support Grant	0.12
Social Care Grant	0.24
Top-Up Grant	0.06

Other financial assumptions

TABLE 5: SUMMARY OF OTHER FINANCIAL ASSUMPTIONS

Item	2024/25	2025/26	2026/27	2027/28
Pay inflation	3.0%	2.0%	2.0%	2.0%
Consumer Price Index (CPI)	3.2%	2.1%	2.0%	2.1%
Employer’s Local Government Pension Fund rate	16.8%	16.8%	16.8%	16.8%
Borrowing Rates	5.0%	5.0%	5.0%	5.0%

Pay Inflation

The 2023/24 pay award cost 5.6% on average, compared with 4.0% that been allowed for within the MTFS agreed in February 2023, creating an ongoing inflationary pressure of £2.0M. For 2024/25 a 3% pay award has been assumed. This is 1% more than had been allowed for within the MTFS agreed in February 2023, creating an inflationary pressure of £1.3M for 2024/25 onwards. A 2% pay award has been assumed for 2025/26 and thereafter. Under the new cash limited budgets approach budget provision for the pay awards is held by directorates and not centrally. If actual pay awards are higher than has been assumed directorates will need to manage the difference. 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 level of general price inflation and the national living wage.

National Living Wage

Increases in the national living wage have implications for pay awards and the council's general costs in areas like social care. The council has adopted the Living Wage Foundation’s recommended living wage, which is currently £12.00 (set in October 2023 but to be implemented by the council from 1 April 2024), for payment of its employees, and this rate is higher than the government's NLW (£11.44 from April 2024).

General Inflation

General inflation levels gradually reduced during 2023, with the Consumer Price Index (CPI) coming down from 8.7% for April 2023 to 4.0% for December 2023. Directorate budgets include provision for contract inflation for 2024/25 and future years. Contract uplifts are generally based on specified indices/measures in the months preceding when the uplift applies. For 2024/25 £2.5M has been included for contract inflation at an average increase of 6.5%. This is £0.5M less than had been provided for within the February 2023 MTFS. There is a risk that should inflation be at a higher rate than anticipated costs will rise. Any difference between actual and estimated inflation rates will be for directorates to manage.

In addition to the above, £5.0M for inflation on adult social care provider contracts was included in the MTFS agreed in February 2023 for 2024/25 and £2.5M additional each year thereafter, this has been allocated to the Wellbeing & Housing Directorate. There is a saving proposal to release £1.0M of the 2024/25 uplift budget. An increase of £0.2M has been allowed for within the Capital Asset Management to recognise the additional capital financing costs arising from inflation on capital expenditure.

Sensitivity to Inflation Assumptions

Table 5 below shows the estimated additional cost to the Council in 2024/25 if the pay award or general inflation is 1% higher than assumed in the MTFS.

TABLE 5 SENSITIVITY TO 1% CHANGE IN INFLATION ASSUMPTIONS

	£M
Pay inflation	1.27
General contract inflation (excluding social care contracts)	0.38
Adult social care provider contracts uplift	0.64

Pension Fund - Employer Costs

The Hampshire Local Government Pension Scheme employer contribution rate applicable from April 2023 to March 2026 is 16.8%. No changes to the rate have been assumed following the next triennial revaluation which will take effect from April 2026.

Borrowing Rates

Since 2012, the council has pursued a strategy of internal borrowing – minimising external borrowing by running down its investment balances and only borrowing short term to cover cash flow requirements. The capital financing budget is set on the assumption that this will continue. A borrowing rate of 5.0% for 2024/25 and ongoing has been assumed within the MTFS.

Centrally Held Contingency

The council holds a contingency budget to provide cover for potential cost pressures. For 2024/25 £7.7M is held within contingency, which includes an initial £2.0M for potential redundancy costs and £2.0M for loss or rental income arising from the property disposals programme.

Budget pressures, savings and commitments

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 2023 included budget changes for the years 2024/25 to 2026/27, as well as those for 2023/24. These previously agreed changes form part of the starting approved budget for the year (as shown in Annex 1) before any further changes agreed in the current budget round. Table 6 summarises the previously agreed budget changes for 2024/25 to 2027/28 as approved in February 2021, 2022 and 2023. A detailed schedule of the previously agreed budget changes is provided at Annex 2.

TABLE 6 SUMMARY OF PREVIOUSLY AGREED BUDGET CHANGES

Directorate	**2024/25 £M**	**2025/26 £M**	**2026/27 £M**	**2027/28 £M**
Budget Pressures				
Children & Learning	30.35	30.45	30.45	30.45
Corporate Services	11.18	11.18	11.29	11.29
Place	17.20	16.50	16.53	16.53
Strategy & Performance and CEO	0.13	0.13	0.23	0.23
Wellbeing & Housing	16.68	16.68	16.68	16.68
Centrally Held Budgets	(4.98)	(3.52)	(2.68)	(2.68)
Total Previously Agreed Budget Pressures	**70.56**	**71.42**	**72.50**	**72.50**
Savings				

Children & Learning	(17.32)	(17.81)	(17.81)	(17.81)
Corporate Services	(7.69)	(7.88)	(8.07)	(8.07)
Place	(7.78)	(8.22)	(8.19)	(8.19)
Strategy & Performance and CEO	(0.78)	(0.78)	(0.78)	(0.78)
Wellbeing & Housing	(4.68)	(4.18)	(4.18)	(4.18)
Centrally Held Budgets	(11.03)	(10.98)	(10.90)	(10.90)
Total Previously Agreed Savings	**(49.27)**	**(49.85)**	**(49.93)**	**(49.93)**
Commitments				
Children & Learning	0.15	0.15	0.15	0.15
Place	0.57	0.57	0.57	0.57
Wellbeing & Housing	0.07	0.07	0.07	-.07
Centrally Held Budgets	3.65	3.71	3.71	3.71
Total Previously Agreed Executive Commitments	**4.44**	**4.50**	**4.50**	**4.50**
TOTAL PREVIOUSLY AGREED BUDGET CHANGES	**25.72**	**26.07**	**27.07**	**27.07**

Numbers are rounded

Budget Pressures

Table 7 summarises the new budget pressures that have been included in the medium term financial forecast in Annex 1, not including the inflationary pressures which are outlined above in the other financial assumptions section. The budget pressures are mainly due to continuing high demand for council services, especially for children's and adults social care and home to school transport, as well as pressures due to high costs of homelessness provision, savings proposals and income targets that are no longer considered achievable and higher costs of capital financing. Many of these pressures are being experienced by councils nationwide.

TABLE 7 SUMMARY OF BUDGET PRESSURES

Directorate	**2024/25 £M**	**2025/26 £M**	**2026/27 £M**	**2027/28 £M**
Children & Learning	10.01	10.10	9.66	9.66
Corporate Services	5.65	5.81	6.19	6.19
Place	11.77	13.41	14.65	16.52
Strategy & Performance and CEO	0.60	0.60	0.60	0.60
Wellbeing & Housing	10.82	10.94	11.66	12.38
Centrally Held Budgets	3.18	5.85	5.85	5.86
Total Budget Pressures	**42.03**	**46.71**	**48.61**	**51.21**

Numbers are rounded

Savings

The council has identified savings through efficiencies, cost control measures and service redesign, together with delivering savings through income generation. Table 8 summarises the savings that have been included in the medium term financial forecast in Annex 1. Savings proposals relating to council tax income and general grant funding are included within the council's resources noted above.

TABLE 8 SUMMARY OF SAVINGS

Directorate	**2024/25 £M**	**2025/26 £M**	**2026/27 £M**	**2027/28 £M**
Children & Learning	(4.92)	(4.49)	(4.42)	(4.37)
Corporate Services	(3.20)	(2.88)	(2.49)	(2.49)
Place	(7.08)	(7.07)	(7.04)	(6.80)
Strategy & Performance and CEO	(0.27)	(0.27)	(0.27)	(0.27)
Wellbeing & Housing	(5.49)	(4.55)	(4.55)	(4.55)
Centrally Held Budgets	(1.72)	(2.73)	(2.54)	(2.46)
Total Savings	**(22.68)**	**(21.99)**	**(21.31)**	**(20.94)**

Numbers are rounded

Executive Commitments

Table 9 below summarises the Executive commitments that have been included in the medium term financial forecast in Annex 1. These include the impact on capital financing costs of adding new schemes to the capital programme.

TABLE 8 SUMMARY OF COMMITMENTS

Directorate	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M
Place	0.15	0.15	0.15	0.15
Wellbeing & Housing	0.34			
Centrally Held Budgets	0.37	1.49	3.16	4.74
Total Executive Commitments	**0.86**	**1.64**	**3.31**	**4.89**

Numbers are rounded

Balances and earmarked resources

The council holds revenue reserves to provide cover for risks and unforeseen events, to meet known or predicted requirements and to manage timing differences in funding. There are two types of General Fund revenue reserve: i) the General Fund Balance, which operates as a working balance to manage uneven cash flows and to provide a contingency against emerging events or emergencies. CIPFA recommend a minimum balance of 5% of net revenue expenditure; and ii) earmarked reserves, which are used as a means of building up funds for use in a later financial year for known or predicted requirements, including risks. The types of earmarked reserves held by the council are set out in the Revenue Reserves Policy at Annex 8. In recent years revenue reserves have been used to help balance the budget. The intention is to move away from this towards a position where reserves are used for non-recurrent purposeful investment or spend and to ensure that there is financial provision set aside to meet known future one-off commitments or liabilities.

The Executive Director Corporate Services & S151 Officer has reviewed the level of reserves in formulating the MTFS and 2024/25 budget and recommends the General Fund balance is increased by £1.93M from the current balance of £10.07M to £12.00M in line with the CIPFA recommended minimum.

Earmarked reserves (excluding schools' balances) totalled £49.6M at the end of 2022/23 and are forecast to be £21.1M at the end of 2023/24, after taking account of the budgeted drawn down from reserves and use to meet the 2023/24 in-year overspend. This includes contributions of £5.30M to the Transformation & Improvement and Organisational Redesign Reserves during 2023/24 from one-off gains (primarily from a VAT reclaim) and £0.4M to the Investment Risk Reserve to provide cover for a reduction in value of the pooled property fund investment. In recognition that existing reserves were highlighted as inadequate in the budget report to Council in February 2023, the MTFS includes the setting aside of sums to rebuild reserves over time. Table 10 below shows the planned contributions to reserves within the MTFS. The forecast future position for reserves is shown in Annex 3 and is summarised in table 11. The reserves forecast does not include any use of reserves to meet budget shortfalls in 2024/25 or future years.

TABLE 10 FORECAST USE OF CORPORATE EARMARKED RESERVES

	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M
MTFS as at February 2023	**0.00**	**2.00**	**2.00**	**2.00**
Replenishment of Medium Term Financial Risk Reserve			3.88	5.32
Drawdown from MTFR Reserve to increase General Fund Balance	(0.78)			
Repayment to MTFR Reserve for timing difference between business rates grants shortfall and Collection Fund surplus	0.08			

Contribution to Investment Risk Reserve	0.40	0.40		
Contribution to Transformation & Improvement and Organisational Redesign Reserves - from the 2023/24 Collection Fund surplus	2.17			
Contribution to Social Care Demand Risk Reserve	0.20			
Sub-Total new net contributions to reserves	2.07	0.40	3.88	5.32
MTFS as at February 2024	**2.07**	**2.40**	**5.88**	**7.32**

Table 11 below shows the forecast General Fund earmarked reserves (excluding schools' balances) at the end of each financial year of the MTFS. See paragraphs 118 to 124 of the main budget report for the S151 Officer's assessment of the adequacy of reserves.

TABLE 11 GENERAL FUND EARMARKED RESERVES

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M
Total earmarked reserves (excluding schools' balances)	21.07	20.02	21.39	26.13	33.52

The earmarked revenue reserves forecast excludes £11.1M relating to a cumulative overspend on the Dedicated Schools Grant (DSG) as at the end of 2021/22, which in accordance with regulations is being held in a separate DSG Adjustment Account so as to have no impact on the General Fund and non-school services the council provides. The regulations do not allow for any subsequent DSG surpluses to be applied to reduce the balance in the adjustment account, they are held in a DSG Reserve within earmarked revenue reserves. The combined forecast position at the end of 2023/24 across the adjustment account and reserve is an £8.3M cumulative overspend. The regulations apply 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 £8.3M net deficit will fall to be included within General Fund earmarked reserves from 2026/27.

Forecast financial position 2024/25 – 2027/28

Changes since the MTFS update reported to Cabinet in November 2023 are summarised in Table 12 below, with further detail provided in Annex 4 (2027/28 has been added as if it had been reported in November).

TABLE 12 SUMMARY OF CHANGES SINCE NOVEMBER 2023

	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M
Forecast budget shortfall November 2023	33.40	39.58	47.95	50.77
Unachievable Savings	0.41	0.41	0.41	0.41
Budget Pressures	6.92	7.06	7.44	7.98
Inflation	(0.10)	(0.10)	(0.10)	5.99
New Proposed Commitments	0.71	1.49	3.16	4.74
Funding Changes	(2.37)	(0.35)	3.51	0.35
One-off Sums	0.31	0.00	0.00	0.00
Transfers to/(from) Reserves	(0.31)	0.00	0.00	0.00
Savings Proposals	0.31	(0.23)	(0.03)	0.17
Revised Budget Shortfall	**39.28**	**47.86**	**62.33**	**70.41**

The Council's current forecast financial position is set out in Table 13 below and summarised by directorate in Annex 1. It includes the implications of the 2024/25 local government finance settlement and funding assumptions for future years set out earlier in this report. It will be reviewed each year as part of the business and budget planning framework to reflect any new pressures, changes in funding assumptions and any revision to the council's corporate plan. Where possible, factors described in the Context section have been built into the financial modelling to ascertain the forecast financial position.

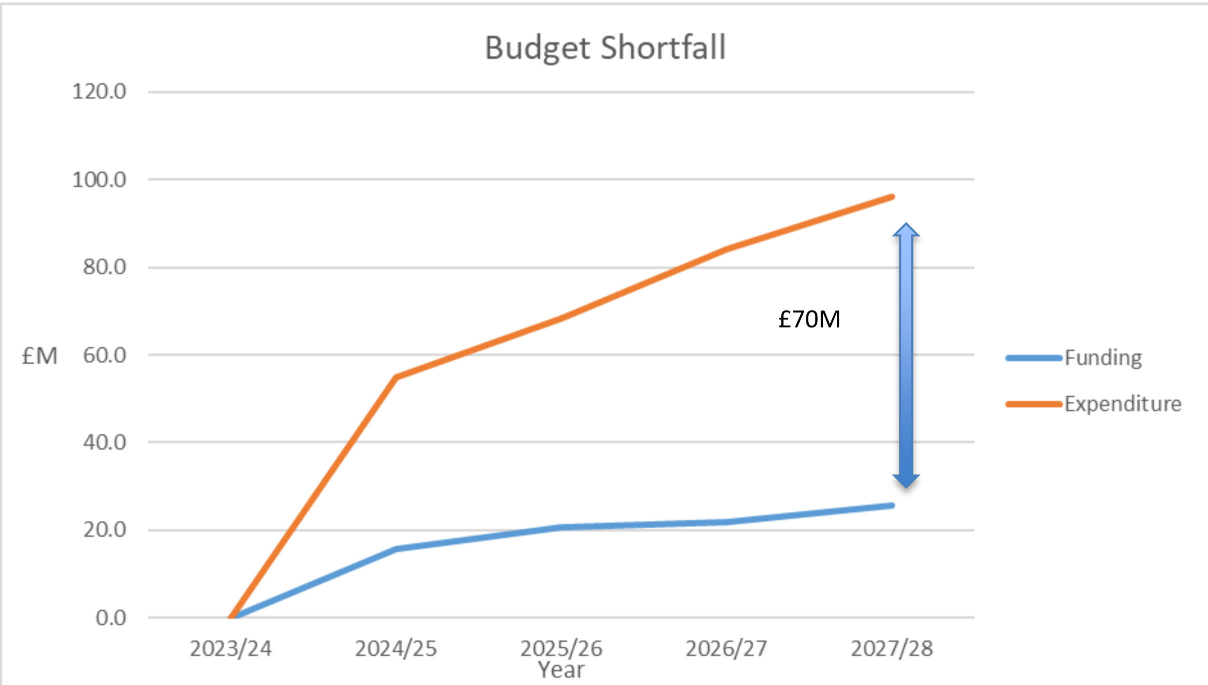
TABLE 13 FORECAST BUDGET SHORTFALL

	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M
Net Expenditure	278.52	290.03	305.84	317.76
Funding	(239.24)	(242.16)	(243.50)	(247.34)
EFS - Capitalisation of Revenue Expenditure	(39.28)			
Forecast Budget Shortfall	**0.00**	**47.86**	**62.33**	**70.41**

Based on current forecasts, the council's net expenditure outweighs its funding in each year of the MTFS. The council has accepted an offer of exceptional financial support (EFS) from the government for 2024/25 in order to be able to set a balanced budget. This support comes in the form of a capitalisation direction, which allows the council to use capital resources to fund revenue expenditure, subject to the council meeting the conditions attached to the EFS offer. Further details are provided in paragraphs 51 to 58 of the main report. This support only applies for 1 year and the council will need to identify savings to be able to balance the budget in future years. The council is required to achieve annual savings of around £48M from 2025/26, rising to £70M by 2027/28. Further savings proposals will be brought forward during 2024/25 as soon as they are ready to be implemented or to be consulted upon as necessary, to reduce the call on the capitalisation direction and to contribute to reducing the budget shortfalls in future years. The council is also developing a transformation programme to deliver the level of savings required to put the council back on a sustainable financial footing.

The graph below demonstrates the budget shortfall to 2027/28 as at March 2024, excluding exceptional financial support for 2024/25.

CHART: BUDGET SHORTFALL



For 2025/26 onwards it has been assumed that the council's settlement funding allocation is flat and that there is no increase in social care grants. A business rates reset has also been assumed for 2026/27. Cautious estimates for housing growth and commercial developments have been included within the medium term forecast. If any of these assumptions are 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 the Key Risks section.

Capital programme

Planned capital expenditure and the associated financing is detailed within the budget report for approval by Council in March 2024. The programme has been reviewed and reprofiled in light of the economic environment (inflation and interest rates) and changing priorities. The proposed Capital Programme for 2023/24 to 2028/29 totals £544.82M and includes £264.81M for the General Fund and £280.01M for the HRA. The General Fund Capital Programme includes the following major commitments:

- £10.2M for flood alleviation schemes
- £91.0M for highways and transport schemes
- £60.3M for schools and other education projects
- £29.2M for Outdoor Leisure improvements

Consideration has 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 capital projects must ensure purposeful investment and focus on delivering the optimum value for money for the council and its benefits are fully considered against taking account of the financial challenges the council faces. The Purposeful investment criteria is as follows:

1. Does it reduce revenue expenditure/increase income in the current year or future years?
2. Does it stop a potential financial pressure in future years?
3. Does it have a significant impact on the lives of residents?

All the revenue implications of the capital projects are built into both the General Fund Estimates and Housing Revenue Account Business Plan.

Purposeful Investment

All investment, either revenue or capital, to have a clear purpose and strong business case. Actions being taken:

- All capital schemes will be reviewed to ensure they are an investment with a purpose in line with those agreed.
- Review of the Corporate Plan, People Plan and the supporting strategies to reflect the priorities of purposeful investment and a sustainable organisation.
- Identify further opportunities to invest in the city and the council including innovative ideas and ensuring business cases have been developed in anticipation of funding becoming available.
- Establish a Strategic Capital Board to ensure capital projects are being prioritised and the investment is based on strong business cases and delivery plans.

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 2024/25 reflect the decision made by Cabinet on 6 February 2024 to work in partnership with other Registered Providers for the provision of new housing at plots 2 and 9 Townhill Park. Additional investment has been included in the programme aimed at improving voids in 2024/25, and increased investment to address decent homes standards compliance. However, in-house delivery of new homes is still budgeted for plot 10 Townhill Park, and this is reflected in capital spending proposals.
- A provision of £1.85 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 agreed minimum balances of £3M in 2024/25, £4M in 2025/26 and £7M from 2027/28 and over the life of the Plan. This represents an increase from the minimum £2M following a review of the working balance during 2023/24.

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, and a rent cap of 7% applied in 2023/24. The rental increases are limited by national government policy and are currently calculated using the Consumer Price Index inflation plus 1% for 2024/25. Guidance has not yet been consulted or issued for 2025/26 and beyond, but the business plan assumes CPI +1% continues in 2025/26 and that increases from 2026/27 are in line with CPI. The budget proposals recommend no increase in service charges for 2024/25 pending further review work, and an increase in Landlord Controlled Heating charges of 6.5% as part of a longer term plan to address the deficit on the account, currently forecast at £3M at the end of 2023/24.

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
- Changes to employer pension contribution rates
- 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, housing growth and the level of local council tax support
- 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 insurance provisions
- 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 risks associated with these revised forecasts. The main risks are:

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 2024/25 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 until October 2025 at the earliest 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.

Managing budgets and forecasting

The Financial Procedure Rules were updated in July 2023 to strengthen the financial framework and reflect the cash limited budget approach being adopted. Budget holders at all levels of the council from executive directors downwards will be asked to sign budget accountability statements confirming responsibility for the effective planning and management of the budget to deliver service priorities and outcomes within the agreed budget envelope. All known budget pressures have been recognised within the 2024/25 budget, therefore budget holders should have sufficient resources to manage their budgets effectively. Budget holders will be required to report any variations between forecast for the year and the budget available and to rectify them as soon as possible, through the development and implementation of action plans. The council will monitor its revenue and capital budgets (including the HRA) monthly, including progress in delivering savings and action plans, where necessary.