DECISION-MAKER:		CABINET		
SUBJECT:		Medium Term Financial Strategy Quarter 2 Update		
DATE OF DECISION:		17 OCTOBER 2023		
REPORT OF:		CABINET MEMBER FOR FINANCE & CHANGE		
CONTACT DETAILS				
Executive Director	**Title:**	Executive Director Corporate Services (S151)		
	Name:	Mel Creighton	**Tel:**	023 8083 3528
	E-mail:	Mel.Creighton@southampton.gov.uk		
Author	**Title:**	MTFS and Revenue Manager		
	Name:	Stephanie Skivington	**Tel:**	023 8083 4153
	E-mail:	Stephanie.skivington@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY

Appendix 6 is exempt from publication by virtue of category 3 of rule 10.4 of the council's Access to Information Procedure Rules i.e. information relating to the financial or business affairs of any particular person. It is not in the public interest to disclose this information due to an ongoing commercial dispute which is subject to a protected alternative dispute resolution procedure. If the information was disclosed, then the council's financial position would be available to other parties to the dispute and prejudice the council's ability to achieve best value.

BRIEF SUMMARY

Cabinet and Council were updated with the latest financial position in July 2023, and the actions underway to address the challenges faced. This report provides a further update and includes additional savings proposals, both for this year and future years, as a further measure to help address the difficulties faced.

As highlighted in the July report, when the 2023/24 budget was agreed it was evident the council faced significant and serious budget challenges with a heavy reliance on reserves. When agreed, the 2023/24 budget relied on an additional drawdown of £20.6M as a one-off stop gap measure to balance the budget.

The risks around the potential for a S114 notice, where the council declares it is unable to fund its spending from existing resources, were highlighted by the earlier reports. This risk remains a severe one as demand pressures outstrip any funding increases and the council takes the time to reduce the base expenditure accordingly to remove the structural deficit.

The July report reflected urgent work to understand the financial challenges faced and refresh the council's financial strategy to address them. It was recognised that the position needs urgent and responsible actions to reduce risks and place the council on a more sustainable financial footing. The financial situation remains serious, with a great deal of local and national uncertainty impacting on forecasts. The council's financial resilience is weakened by a low level of available reserves to address in-year overspends or other financial risks beyond existing budget provision. The Medium Term Financial Risk (MTFR) reserve, which is the main means to cover overspends and risks, is forecast to stand at £9.4M by the end of the financial year excluding any use to meet an in-year deficit.

In July the in-year deficit forecast was reported as £20.9M (after cost control measures), and therefore exceeded the capacity of the MTFR reserve to cover it. The latest update in this report is a forecast £14.1M overspend if the proposals brought forward are implemented in full and on time. This still leaves a significant gap, and urgent work must continue to address this and the considerable budget shortfall identified in future years, starting at £37.8M in 2024/25 and rising to £52.4M in 2026/27.

The report in November that will begin to set out budget proposals for the next three years, will need to significantly reduce the gap over the three year period to 2026/27 to begin to ensure the council is financially sustainable.

RECOMMENDATIONS:

	General Fund – Revenue It is recommended that Cabinet:	
	i)	Notes the updated budget position, progress made on the financial strategy and MTFS forecast.
	ii)	Approves the creation of a Transformation Reserve and an Organisational Redesign Reserve as set out in paragraphs 50 to 54.
	iii)	Approves the creation of an Investment Risk Reserve as set out in paragraphs 55 to 58.
	iv)	Approves the reintroduction of the Social Care Demand Risk Reserve as set out in paragraph 59 to 62.
	Housing Revenue Account It is recommended that Cabinet:	
	v)	Notes the update on the Housing Revenue Account business plan proposals set out in paragraphs 90 to 99 and Appendix 6.
	vi)	Approves the in-year budget adjustments to the Housing Revenue Account capital programme detailed in paragraphs 82 to 89.
	Capital Programme It is recommended that Cabinet:	
	vii)	Notes the progress on reviewing the General Fund capital programme set out in paragraphs 70 to 72.
	viii)	Notes the in-year budget adjustments to the General Fund capital programme, as summarised in paragraph 72 and detailed in Appendix 5.

REASONS FOR REPORT RECOMMENDATIONS

1. The medium term financial strategy is a dynamic plan which requires regular review and update to ensure the council has clear oversight of its medium term financial position, therefore it is best practice to bring updates revising the assumptions and progress on the plan.

2. There is also a need to bring forward proposals to help address the budget shortfall identified for future years.

3. There is also a further update on the work that has been undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA) on the financial position of the council, following the review of the robustness of forecasts

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

4. An approach of failing to take actions in-year and implement the new Financial Strategy agreed in July by full council would lead to a large forecast overspend which would mean the council being financially unsustainable and the issuing of a S114 notice. The council is also legally obliged to set a balanced budget for 2024/25, and the work reported below includes measures to help with that requirement.

DETAIL (including consultation carried out)

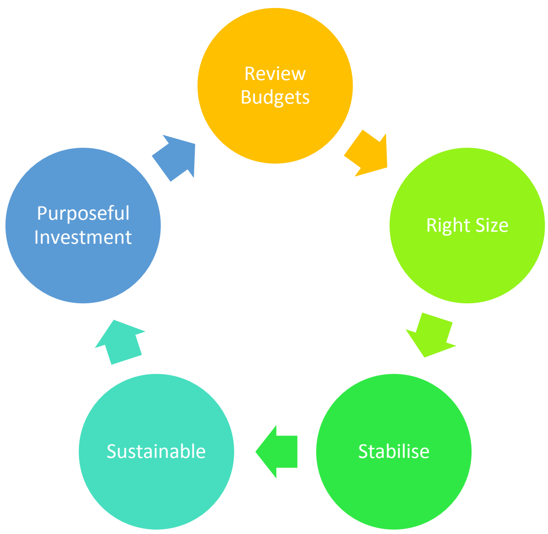
Background

July 2023 MTFS Update

5. An update on the Medium Term Financial Strategy (MTFS) for the period 2023/24 to 2026/27 was provided to cabinet and full council in July 2023, along with the financial strategy adopted and actions being taken to reduce expenditure to within budget for 2023/24 and to achieve a sustainable budget over the lifetime of the MTFS.

6. The financial strategy is summarised in Diagram 1 below.

7. Diagram 1: Financial Strategy



- Step 1 Review Budgets – to establish the financial position.
- Step 2 Right Size – to ensure there is clarity on what are affordable expenditure levels.
- Step 3 Stabilisation – to remove in year overspend and ensure the structural deficit has been addressed and the reliance on reserves removed.

- Step 4 – Sustainable – to ensure the council is sustainable and able to withstand economic and financial shocks.
- Step 5 – Purposeful Investment – all investment, either revenue or capital, to have a clear purpose and strong business case.

8. Table 1 below summarises the MTFS update reported in July 2023, based on the worst case for budget and inflationary pressures (see paragraph 13 below) and including the first tranche of cost control measures identified.

9. Table 1 Previous Forecast Budget Shortfall 2023/24 to 2026/27 July 2023

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M
Forecast Budget Shortfall February 2023	0.00	21.22	22.56	24.79
Unachievable Savings	2.71	3.65	4.04	4.04
Budget Pressures	24.97	30.16	34.23	36.30
Changes to Inflation	2.10	2.26	2.35	2.47
New Proposed Commitments	0.20	0.20	0.20	0.20
Funding Changes	0.00	(3.48)	(4.83)	(6.27)
Transfers to/(from) Reserves	0.00	1.15	0.00	3.88
First tranche of cost control measures	(9.08)	(9.02)	(8.48)	(8.44)
Forecast Budget Shortfall July 2023	**20.90**	**46.14**	**50.07**	**56.97**

Numbers are rounded

10. This report provides an update on progress being made to closing the budget gap in 2023/24 and reducing the forecast shortfall in future years.

CIPFA Review Update

11. Cabinet and Council were updated in July 2023 on the draft Chartered Institute of Public Finance and Accountancy (CIPFA) report which had been commissioned to look at the council's financial management and also review the council's financial resilience. It was identified in the July report that:

- Following CIPFA's initial report an action plan will be finalised, suggesting ways to improve financial management, move the council from a two to a three-star organisation and the direction of travel for continued improvement.
- The need for further work from CIPFA, given the initial report was based on information provided at a very early stage in the financial year, to confirm the financial position and validate forecasts and estimates. This further report examined: (a) the robustness of the arrangements to forecast the financial position as at July including the estimates of growth pressures; (b) the likelihood of sufficient savings being identified to balance the budget in 2023/24 and the extent of action needed to achieve financial sustainability; and (c) considered potential broad-brush scenarios that might arise.

12. An executive summary of the CIPFA robustness of forecast review is provided at Appendix 1. The report identified that the authority is facing a nearly 15% shortfall in its portfolio budgets with the great majority of pressures unavoidable. The key drivers of the continuing pressure on the budget are the structural overspending on providing statutory services funded by the Home to School Transport, Adult Social Care and Looked After Children budgets. It also stated that "Just four or five budget lines account for almost 50% of the additional pressure – some £14m of overspending."

13. The July report to Cabinet and Council presented a best and worst case scenario for budget pressures and unachievable savings. Part of the reason for the new CIPFA report being commissioned was to validate future forecasts and apply rigor to test them, as given uncertainty in many areas different outcomes were possible. Although the forecasts have moved on since July, the CIPFA report broadly endorses a 'worst case' situation as the likely scenario. The report concludes "The financial position for both 2023-24 and 2024-25 continues to be precarious and requires continuing action to reduce expenditure and address the deficit. The authority needs to develop a financial recovery plan to cover the period of the MTFP. The plan should be built round supporting the council's financial position not just in the short-term but for the medium and longer-term. A service improvement plan needs to identify clearly how the structural changes required to bring about sustainable reductions in expenditure in Adult Social Care and Looked After Children areas in particular will be delivered. "

Paragraphs 19 to 31 set out the progress to date on the financial strategy to address the deficit.

<u>Current Financial Position as at Quarter 2 (September 2023)</u>

14. The table below summarises the position as at quarter 2 and shows the movement from quarter 1.

<u>Table 2 Current Financial Position</u>

	Budget Qtr 2 £M	Annual Forecast Qtr 2 £M	Forecast Variance Qtr 2 £M	Forecast Variance Qtr 1 £M	Movement from Qtr 1 £M
Children & Learning	64.18	71.85	7.67 A	8.93 A	1.26 F
Corporate Services	39.00	41.35	2.35 A	2.89 A	0.54 F
Place	28.68	29.15	0.47 A	2.65 A	2.18 F
Strategy & Performance and CEO	3.72	3.83	0.11 A	0.07 A	0.04 A
Wellbeing & Housing	95.19	99.20	4.01 A	6.43 A	2.42 F
Total Directorates	**230.77**	**245.38**	**14.61 A**	**20.96**	**6.36 F**
Centrally Held Budgets	-9.19	-9.30	0.11 F	0.04 F	0.07 F
Net Revenue Expenditure	**221.58**	**236.08**	**14.50 A**	**20.91 A**	**6.43 F**
Financing	-221.58	-222.01	0.43 F	0.00	0.43 F
(Surplus) / Deficit for the year	**0.00**	**14.07**	**14.07 A**	**20.91 A**	**6.84 F**

Numbers are rounded

The current forecast outturn position for is an overspend of £14.07M. Whilst this is still a significant cause for concern given the levels of reserves it is a favourable movement of £6.84M since quarter 1.

15. <u>Children & Learning</u>

Home to School Transport Service has an overspend of £4.1M. There is an action plan in place to address a proportion of this expenditure but due to significant demand pressures the plan will not mitigate the pressure fully. The plan includes route optimisation, and a retendering exercise.
Looked after children placement costs are overspent by £3.1M, due to the increased placements costs. Cost control initiatives have been introduced including early intervention action, reducing accommodation costs, prioritising projects to reduce spend and reducing translation costs by utilising online solutions.

16. <u>Corporate Services</u>

£1.55M is due to unachievable savings, a shortfall in income of £0.77M and a shortfall in the salary budget of £0.53M which mainly relates to forecast variances within the IT budget. The adverse position is reduced by cost control measures within the pension account of £0.23M, forecast savings of £0.14M in the Highways budget and risk management savings of £0.13M.

Work is being undertaken to reduce the deficit position including a review of IT costs via a review of licences, procurement arrangements and software system duplication. This review is being supported by external provision to ensure it can be completed at pace.

17. Place

Place directorate is overspent by £0.47M. This is due to various reasons including adverse variances of

- £0.2M relating to Mayflower Park funding,
- £0.3M historic agency saving target which cannot be achieved,
- £0.3M relating to visitor economy, virtual retail for the Art Gallery and Southampton branding.
- £0.2M due to non-achievement of the solar bins saving and other minor savings
- £0.2M pressure relating to the cost of reactive repairs,
- increased Coroner costs of £0.1M
- and £0.2M City Development growth proposal.

Considerable work has been undertaken to reduce the deficit including

- identifying a rates reduction in cultural services of £0.2M;
- transportation cost control measures of £0.3M
- reduction in the anticipated cost of energy of £0.3M
- net increased income of £0.18M,
- along with a reduction on the Waste Transformation and Improvement budget of £0.3M.

Cost control measures are continuing to be developed to address the remaining pressure in year.

18. Wellbeing and housing

There is an overspend of £4.0M due to

- £5.4M of increased number and cost of client packages,
- £0.2M of non-achievement of savings,
- £0.3M increased bad debt provision
- and £0.3M increased homelessness costs,

This has been offset by employee savings including agency of £0.5M. The adverse position is further reduced by new government funding of £1.7M for care costs. This has embarked on a significant improvement programme. Work continues on cost control measures.

19. **Progress to Date on the Financial Strategy**

20. Immediate Actions

The progress to date on the various actions identified in the July MTFS report are as follows:

1. Cash limited budgets have been distributed and are being updated regularly, as assumptions change, with Executive Directors working towards ensuring expenditure is maintained within these cash limits
2. Star Chamber sessions reviewing savings proposals, efficiencies and income generation options have continued throughout the summer with further sessions planned
3. Working with the programme management office, plans have been developed to deliver the cost control measures identified.
4. The status rating on proposals has been implemented
5. The finance opinion on achieveability has been implemented and is utilised in deciding the proposals to bring forward
6. All proposals brough forward so far have green status and a delivery plan in place or implemented. As we move to looking further out in the time horizon some proposals will be

	included that are amber and a work in progress so there is transparency over the direction of travel and how we intend to close the financial gap. 7. CIPFA have now completed their review and are finalising the action plan and the Target Operating Model for finance 8. The monthly monitoring update to Cabinet has been implemented alongside the more detailed MTFS report 9. The accountability statements have not yet been introduced. These will be discussed with Executive Management Team and Cabinet before introduction. These are currently in draft format and will require a communications and training plan to ensure budget holders are aware of the implications 10. Quarterly MTFS reports have been implemented, this report being the second of those.
21.	Step 1 Review Budgets all actions have been completed. There is further work progressing to ensure regular reviews of the pressures and assumptions within the MTFS, see paragraph 32.
22.	Step 2 Right Size Cash limited budgets have been established and improvement and transformation plans are being drawn up to ensure we have reduced our expenditure to affordable levels. We have started to set aside one-off monies into reserves as per our reserves strategy, see paragraph 50 to 62. New design principles and a standardised service redesign approach have been established and work is now ongoing throughout the organisation to redesign services within affordable levels.
23.	**Step 3 Stabilisation** The cost control panel continues to operate and further cost control measures have been brought forward in this report at Appendix 3.
24.	A council-wide voluntary redundancy (VR) scheme was launched over the summer, to offer all staff across the council the opportunity for voluntary severance, in order to reduce staffing costs. In accordance with the normal HR policy, a full 45 day consultation applied and applications were assessed on a number of criteria including value for money for the severance costs incurred. Staff who applied and were accepted also had the right to change their mind for a time after an offer had been made. In relation to the General Fund, the outcome was that for 2023/24, 49 staff members confirmed the offer to leave under VR. The total cost will be £2.03M, with a saving of £0.60M in 2023/24 rising to £1.55M in 2024/25. There are also additional savings within the Dedicated Schools Grant (DSG) of £0.08M in 2024/25. Given that the sum provided within the budget for VR costs in 2023/24 was only £2M i.e. less than the costs of VR under this scheme, most of the 2023/24 savings (around £0.5M of the £0.6M savings) will be used to help fund these and also other VR costs, rather than applied to offset the budget gap. The sums saved next year will, however, be applied to help reduce the projected budget shortfall.
25.	Activity reviews are continuing as are the new target operating models in some areas. At present work on business plans has been paused to focus on service redesign and cost savings work.
26.	Work on the transformation programme is progressing alongside an overarching improvement plan, which will be discussed with the Improvement Board
27.	Work on updating and developing the benefit realisation plans from the transformation and improvement programmes is also continuing.
28.	Maximising external funding is a further strand to the financial plan. The External Funding Manager is focused on immediate grant bid development support, researching the current funding landscape internally and externally. developing an external funding framework and developing key

relationships internally and externally. The overarching aim is to create a proactive framework that will help officers identify and pursue funding opportunities for the council.

The development of the External Funding framework continues liaising with key stakeholders. This includes:

- External Strategy aligned with the Southampton Corporate Plan priorities – with associated action plan (due to go to key stakeholders 6 November EMB 19 December)
- Grants and External Funding Procedure aligned with corporate standards i.e. Finance, HR, Legal, Risk, Procurement and Democratic Services.
- Central External Funding List – providing an oversight of bids in play across the council, performance measures, audit trail and record retention.
- Training to support the strategy and procedures and bid development.
- External Funding SharePoint site – housing the above

To maximise the value of the councils in-house funding search tool - GrantFinder - licenses have been increased from 10 to 35. The first round of virtual training on using the system was delivered on 4 July 2023 with more planned across the year. There is no extra cost incurred by the additional licenses or training. The value of GrantFinder will be reviewed annually.

Recent funding successes have been:

- Young Peoples Services have been successful in being awarded £2,620. Building on this success YPS are now developing a larger bid proposal for round 2 up to the value £100,000.
- Childrens Services (Youth Justice) were awarded £20,000 to fund support for those aged 25 and under at risk of being drawn into or already involved Serious Violence including knife enabled offences. Building on this success the team have submitted a further bid totalling £46,000

Further known external funding bids awaiting outcome are up to £6,264,000 largely around the Health Determinants Fund. It is important to note though that external grant funding that is one off or short term in nature should not be utilised to support core essential spend.

29. **Step 4 Sustainable**

The overarching challenge of the improvement and transformation plans are to ensure we are embedding a strong culture of performance and financial management, whilst adhering to the Nolan principles. As part of the Our Tomorrow programme The People Strategy is being drafted setting out the positive culture plan, and our expectations of employee behaviour, performance and productivity alongside what the employee can do for the city and what they can expect from us as an employee.

Key cost driver work has commenced with the following being identified as priorities for improvement in each area.

Staffing	Accommodation	Assets	Systems & Processes	Partners
HR policies and allowances and the updating of JD/PS Service reviews with a reduction of a minimum 10%	Childrens homes Supported accommodation Housing voids (HRA) Housing related support	Full asset review Disposal & consolidation methodology	Main systems improvements – Care Director & Business World Service centre Debt management	Review of section 75 agreements Review of the integrated commissioning unit

Skills audit & review of training			ICT consolidation of systems	

30. The opposite side of the equation is to increase the income the council receives by growing council tax and business rates, as well as maximising the use of any external grant funding ensuring that the grants cover all internal cost of delivery. The Renaissance Board is a key driver of this, and investment in resource is being looked at.

31. **Step 5 Purposeful Investment**

The Council Capital Board has been established and schemes have started to be reviewed and prioritised see paragraph 70 to 78 and Appendix 5.

32. **MTFS Assumptions**

As part of the quarterly review we have revised the underlying MTFS assumptions to reflect the latest information available. The key MTFS assumptions as updated in July 2023 are set out in Table 2 below.

33. Table 2 Key MTFS Assumptions July 2023

2022/23	Item	2023/24	2024/25	2025/26	2026/27
	Pay Award	5.6%	2.0%	2.0%	2.0%
	Consumer Price Index (CPI)	7.4%	3.2%	2.6%	2.7%
	Borrowing Rates	5.5%	5.0%	5.0%	5.0%
£1,644.39	Increase in Core Council Tax Charge	2.99%	2.99%	2.99%	2.99%
£186.31	Increase in Adult Social Care Precept	2.00%	2.00%	0.00%	0.00%
66,146	Council Tax Base (No. of Band D equivalents)	67,057	67,474	68,430	69,108
49.9p	Increase in Small Business Rates Multiplier	0.0%	5.4%	3.2%	2.6%
£11.37M	Increase in Revenue Support Grant	13.3%	5.4%	3.2%	2.6%
£4.63M	Increase in Top Up Grant	15.9%	5.4%	3.2%	2.6%
£0.91M	Reduction in New Homes Bonus	-76.6%	-100.0%	0.0%	0.0%

34. The following paragraphs 35 to 46 detail the changes made and the information these changes to assumptions are based on.

Inflation

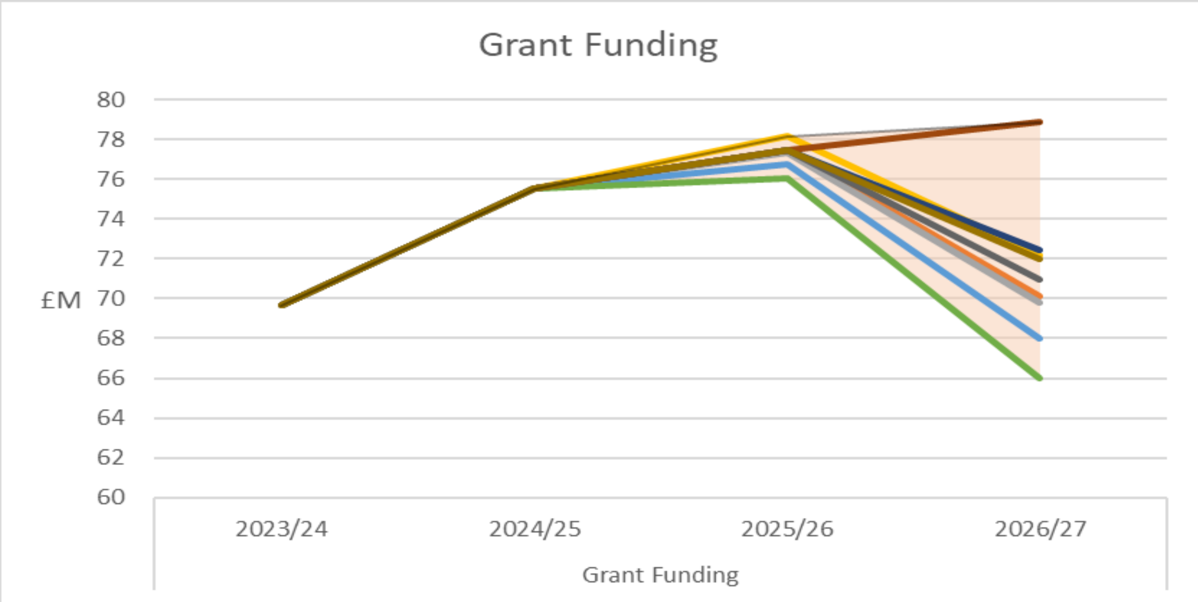
35. The local government pay award offer for 2023/24 has not been accepted by all the unions, however the employers' side has reiterated that this a full and final offer. The offer is costed at around 5.6%, compared with 4.0% allowed for in the budget, creating a budgetary pressure of £2.0M for 2023/24 and ongoing.

36. For 2024/25 onwards pay inflation of 2% per annum had been assumed within the MTFS update in July. It is now considered that 3% for 2024/25 is more likely, which is estimated to cost an additional £1.3M, not taking into account any workforce reductions.

37. General inflation levels have been gradually reducing during the year. The Consumer Price Index (CPI) has come down from 8.7% for April 2023 to 6.7% for August 2023. Budget for 2024/25 contract inflation totalling £3.0M has been included within directorate cash limits. This was based on the CPI estimate of 7.4% for 2023/24 noted in Table 2 (that is, with a 1 year lag). Latest estimates indicate an average increase for 2024/25 of 6.5%, a net reduction of £0.4M. This reduction has been included in this MTFS update, however estimates may change as actual rates for inflation factors that are

	specified in contracts become available. A 1% variation in the contract inflation rate equates to approx. a £0.4M variation in expenditure.
38.	£5.0M budget for inflation on adult social care provider contracts has been included within the 2024/25 cash limit for Wellbeing & Housing. Further work is being done to refine this estimate to determine whether this is sufficient or if any of the allocation can be released. For 2024/25, a variation of 1% in the uplift applied would equate to around a £0.6M variation in expenditure.
	Borrowing Rates
39.	In the July MTFS update report the forecast borrowing rate for 2023/24 was increased from 5.0% to 5.5%, with 5.0% assumed thereafter. There is no change to this assumption as there is no confidence in the market on when the rates will begin to fall.
	Funding
40.	In the July MTFS update the assumptions for future years' council tax increases were amended to 2.99% for core council tax for each year of the MTFS and a 2% adult social care precept for 2024/25 only. In this MTFS the estimates for council tax and business rates income for 2024/25 onwards have been updated to reflect in-year Collection Fund monitoring, revised CPI assumptions and revised projections for the timing and extent of new residential and commercial developments. The net effect of these changes is an estimated £0.34M additional income in 2024/25, however reductions in income of £1.19M in 2025/26 and £2.71M in 2026/27. The MTFS assumes that the business rates multiplier will be increased in line with the September CPI in the preceding year, that is, September 2023 for the 2024/25 multiplier etc. A cautious estimate of 5.4% for the September 2023 CPI has been assumed, no change to what was included in the February 2023 MTFS. An announcement on whether the multiplier will be frozen for 2024/25 is expected to form part of the Chancellor's Autumn Statement on 22 November 2023. If the multiplier is frozen the council will be compensated for the loss of business rates income via government grant and therefore this would have a neutral impact on the council's funding.
41.	The Local Government Finance Policy Statement issued in December 2022 set out the core principles to be applied in 2024/25 and based on this the 2024/25 finance settlement is expected to be essentially a roll forward of the 2023/24 settlement, updated for the latest inflation rate. More information may become available in the Chancellor's Autumn Statement, in advance of the 2024/25 Local Government Finance Settlement likely to be published in mid/late December.
42.	In the policy statement the government set out its intention not to make any changes to how the local government finance system operates 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.
43.	Given these uncertainties, no changes have been made to the assumptions around revenue support grant and other general grants in this MTFS update, however various scenarios have been modelled to understand the potential impact. Chart 1 below illustrates a range of possible scenarios for general grant funding over the period of the MTFS. Grant funding could vary by around £2M in 2025/26 dependent on whether an inflationary increase is applied. If there is an update to the needs and resources assessments in 2026/27, grant funding could vary by around £13M depending on decisions around the treatment of factors such as deprivation and council tax equalisation and the weighting given in decisions by Government on local authority funding.

44. Chart 1 Grant Funding Scenarios



45. The revised key MTFS assumptions are set out in table 3 below.

46. Table 3 Revised Key MTFS Assumptions

2022/23	Item	2023/24	2024/25	2025/26	2026/27
	Pay Award	5.6%	3.0%	2.0%	2.0%
	Consumer Price Index (CPI)	7.4%	3.2%	2.1%	2.0%
	Borrowing Rates	5.5%	5.0%	5.0%	5.0%
£1,644.39	Increase in Core Council Tax Charge	2.99%	2.99%	2.99%	2.99%
£186.31	Increase in Adult Social Care Precept	2.00%	2.00%	0.00%	0.00%
66,146	Council Tax Base (No. of Band D equivalents)	67,057	66,838	67,066	67,454
49.9p	Increase in Small Business Rates Multiplier	0.0%	5.4%	3.2%	2.1%
£11.37M	Increase in Revenue Support Grant	13.3%	5.4%	3.2%	2.6%
£4.63M	Increase in Top Up Grant	15.9%	5.4%	3.2%	2.6%
£0.91M	Reduction in New Homes Bonus	-76.6%	-100.0%	0.0%	0.0%

One-Off Sums

47. Following the conclusion of the multi council litigation on local authorities' provision of leisure services, the court found that local authorities' leisure services are provided under a statutory framework and can be treated as non-business for VAT purposes. The council had two historical claims sat with HMRC which have now been paid with interest, providing a one-off windfall gain of £3.90M.

48. The council has successfully challenged the rateable values of some of its own properties on the 2017 ratings list and secured a one-off refund totalling £0.57M.

49. Under Collection Fund accounting arrangements, the estimated cumulative surplus or deficit on the Collection Fund as at the end of 2023/24 is to be taken into account in budget setting for 2024/25. The current forecast is a surplus of £2.56M at the end of this financial year, with this one-off sum being available in 2024/25.

	Reserves and Balances
50.	**Transformation and Organisational Redesign Reserve** The July 2023 MTFS update identified that the council was pursuing opportunities for change and transformation both within and external to the council, with partners. Work continues on the council's transformation programme, with the full costs and potential benefits being worked up in detail. Work is underway in many areas, especially children's social care (Building for Brilliance) and in adult social care (Ambitious Futures) but also more generally across the authority (Enabling Excellence).
51.	The council also adopted a policy of being able to apply its capital receipts, to help fund transformation. Local authorities are permitted by Government to adopt such a policy as a way to help absorb the cost of transformation and given the reduced level of council revenue reserves it makes sense for the council to continue to help support one off transformation costs via its capital receipts.
52.	The current available level of capital receipts is £1.73M, and these have been allocated to help fund the transformation work. Yet more funds are needed to help ensure adequate capacity for both transformation and also for paying any necessary costs arising from further voluntary severance schemes. It is therefore proposed to create two new reserves: • Transformation & Improvement Reserve • Organisational Redesign Reserve
53.	In accordance with the Council's policy on revenue reserves, which was adopted as part of the MTFS update in July to Council, the council is looking to rebuild its reserves by setting aside one off gains. The one off sums identified above in paragraphs 47 to 49 (£4.47M in 2023/24 and £2.56M in 2024/25) will therefore be utilised to fund these reserves. If, however, the 2023/24 budget shortfall cannot be eradicated in full by the end of the financial year, it may be necessary to apply the one-off sums available in 2023/24 to balance the revenue budget instead.
54.	More detail on the transformation programme, and it costs and benefits will be brought forward as part of future updates.
55.	**Externally Managed Property Fund Investments Reserve** The council has invested £27M in pooled property funds as an alternative to buying property directly. As previously reported these funds offer the potential for enhanced returns over the longer term but may be more volatile in the shorter term. They are managed by professional fund managers (Churches, Charities and Local Authorities Investment Management Ltd (CCLA)) which allows the authority to diversify into asset classes other than cash without the need to own and manage the underlying investments.
56.	Because these funds have no defined maturity date but are usually available for withdrawal after a notice period (180 days), their performance and continued suitability in meeting the authority's investment objectives is regularly reviewed.
57.	Strategic fund investments are made in the knowledge that capital values will move both up and down over months, quarters and years. Considering their performance over the long-term and the authority's latest cash flow forecasts, investment in these funds has been maintained but will be monitored carefully especially as the statutory override on accounting for gains and losses on pooled investment funds ends on 31 March 2025, when any difference between initial investment and the current value will be a loss/gain to the authority's revenue budget. Therefore, a prudent approach would be to set aside a risk reserve for any potential future loss, especially within the current volatile financial markets.
58.	The fund's capital value as of June 2023 was £25.77M giving a potential loss of £1.23M against the original £27M investment. On this basis, £1.23M needs to be set aside and held in reserve to protect

the council from incurring such a loss when the statutory override expires in 2025/26. To even out the effects it is proposed to make a contribution to a new Investment Risk Reserve of £0.4M per annum from 2023/24 to 2025/26 to provide cover for the potential loss.

59. **Social Care Demand Reserve**

A key area giving rise to financial uncertainty is demand for social care, both in respect of adult social care and children's social care. Individual cases, in the extreme, can give rise to costs running to hundreds of thousands of pounds per annum.

60. In recognition of that uncertainty, it is sensible to plan for these high levels of risk with demand costs. And whilst, to a degree, this can be factored into future service budgets, the high degree of volatility would suggest that a reserve should be created to guard against 'spikes' in costs arising. The council previously operated such a reserve, called the Social Care Demand Risk Reserve but the funds held within this reserve were fully utilised as at 31 March 2022.

61. Therefore, it is proposed as part of the council's new General and Earmarked Reserve Policy, to reintroduce the need for future budgets to take account of this risk, which is seen as an essential part of good financial management and maintaining financial sustainability taking account of the key risks the council faces. CIPFA has also highlighted the need to restore the council's reserve to cater for financial risks, from the low level they currently are.

62. However, no plans are proposed as yet within this update to include a budgeted contribution to provide funds for this reserve. Addressing the budget shortfalls forecast within this paper and achieving a balanced budget must be the first priority. But replenishing reserves and having a reserve specifically to cover for this risk is recognised as a necessary and an essential step to underpin the council's financial strategy and improve financial resilience in future. The council's approach to reserves will reflect this and the financial position will be regularly reviewed for any future capacity to create funding for the contribution to this reserve.

Forecast Reserves and Balances

63. At the start of 2023/24 earmarked revenue reserves (excluding schools' balances) were £49.59M and the General Fund balance was £10.07M. The forecast balance on earmarked revenue reserves at the end of 2023/24 is £21.80M, before taking into account the contributions to the Transformation Reserve, Organisational Redesign Reserve and Investment Risk Reserve proposed above and any use to meet the in-year deficit.

64. If the in-year deficit is not reduced from the £14.09M noted in paragraph 66 below, all of the £9.42M forecast balance on the Medium Term Financial Risk (MTFR) reserve would be required to meet it and £4.67M from elsewhere. If this situation arose the £4.47M proposed to be set aside in the Transformation and Organisational Redesign reserves would be the first call, with the remaining £0.20M either required to be met from the General Fund balance or from temporary use of other earmarked reserves. CIPFA advise a minimum General Fund balance of 5% of net revenue budget (£11M), so use of this balance should be avoided if possible. Any temporary use of other reserves would need to be made good in a later year.

Updated MTFS Position

65. Work has been ongoing since the July MTFS update on delivery plans for further cost control measures to address the budget shortfall in 2023/24 and future years. Budget pressures have also been reviewed and updated during this time, based on the latest monitoring position and other available information. Table 4 below shows the movements since the position reported in July. This includes the changes to inflation and funding assumptions and contributions to reserves noted above.

66. Table 4 Updated Forecast Budget Shortfall 2023/24 to 2026/27

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M
Forecast Budget Shortfall July 2023	20.90	46.14	50.07	56.97
Unachievable Savings	(0.51)	0.13	0.13	0.13
Budget Pressures	1.02	(0.12)	(0.44)	(0.99)
Changes to Inflation	(0.04)	0.85	0.85	0.85
New Proposed Commitments	(0.13)	(0.05)	(0.05)	(0.05)
Funding Changes	0.00	(0.34)	1.19	2.72
Second tranche of cost control measures (not subject to further approval)	(7.17)	(8.30)	(6.41)	(6.33)
Updated Forecast Budget Shortfall (forecast as at end of September)	**14.08**	**38.30**	**45.34**	**53.30**
One-off Sums	(4.47)	(2.56)	0.00	0.00
Transfers to/(from) Reserves	4.87	2.96	0.40	0.00
Second tranche of cost control measures subject to further approval & consultation	(0.38)	(0.88)	(0.88)	(0.88)
Updated Forecast Budget Shortfall	**14.09**	**37.82**	**44.86**	**52.42**

Numbers are rounded

67. The net movement in budgetary pressures in 2023/24 is £0.34M, £0.80M in 2024/25, £0.49M in 2025/26 and a reduction of £0.06M in 2026/27. Details of the changes to budgetary pressures are provided in Appendix 2. For 2024/25 onwards the most significant increases relate to the additional 1% for the 2024/25 pay award (£1.26M) and an update to the estimated demographic pressures for adult social care (£0.64M increase in 2024/25). Offsetting is a reduction in the Home to School Transport costs pressure (£0.75M in 2024/25).

68. The second tranche of cost control measures are set out in Appendix 3. These total £7.55M in 2023/24, £9.18M in 2024/25, £7.29M in 2025/26 and £7.21M in 2026/27 and include some measures that are subject to further approval in line with regulatory requirements and reported elsewhere on this agenda. This brings the total cost control measures to date for 2023/24 to £16.63M.

69. Further star chambers will continue throughout the autumn to identify further proposals to assist in meeting the budget shortfall and producing a financially sustainable council.

General Fund Capital Programme

70. As part of the July 2023 MTFS update it was agreed the council would set up a new Strategic Capital Board and that the General Fund Capital Programme would be reviewed. The intention was that all capital schemes will be reviewed to ensure they are an investment with a purpose in line with those agreed. The Strategic Capital Board has held 4 meetings over August and September to begin this process. The aim, when reviewing items within the capital programme was to consider it against the following guidelines:

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

71. It is important to review capital spend, in the light of the financial situation the council faces, the rise in interest rates which have pushed up borrowing costs and the increase in costs of the capital investment due to inflationary pressures. General Fund borrowing costs were anticipated to rise from £16M in the current year to £20.7M in 2026/27, in the agreed capital programme presented at Council in February 2023. The additional interest rate rises since then will have pushed up these costs further, all of which adds further strain to the budget and the future budget shortfalls.

72. Some initial proposals amending the Capital Programme were agreed in the July MTFS update, which reduced the 2023/24 programme by £15.3M. Whilst more work is to be done, to complete a full review of the programme, further changes are tabled at Appendix 5 and summarised below:

Table 5 – Changes to Capital Programme

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M	Total £M
Reduce	(0.22)	(3.42)	0.00	0.00	0.00	(3.64)
Rephase	(5.15)	2.86	1.95	0.34	0.00	0.00
Total	**(5.37)**	**(0.56)**	**1.95**	**0.34**	**0.00**	**(3.64)**

Approval for these proposals will be sought as part of the Q2 Capital Financial Monitoring report.

Housing Revenue Account (HRA)

73. The council is responsible for council housing and the operation of the Housing Revenue Account (the HRA). These responsibilities are outlined in legislation (principally the Local Government and Housing Act 1989 and subsequent amendments) and any guidelines on operation of the HRA from Government. This responsibility cannot be delegated.

74. The 40 year business plan was agreed at Council in February 2023. The business plan was put together based on a significant number of assumptions and expected pressures. The 40 year business plan has been considered as part of the MTFS update, including reviewing existing and new cost pressures within the HRA.

75. Cabinet and Council received an update on the business plan at their July 2023 meetings, which outlined current pressures on the HRA and landlord controlled heating, and provided an update on potential savings within the HRA to mitigate pressures. Cabinet agreed to a recovery plan for the landlord controlled heating account and potential charges will be consulted alongside proposals for rent and service charges in due course.

Cost pressures within the HRA

76. Cost pressures to the HRA were outlined in the July 2023 report. Since July, the following further identified pressures are:

77. Impact of voluntary redundancy: The cost of voluntary redundancies to the HRA in 2023/24 is expected to be £0.3M as a one off pressure in 2023/24. However, this will result in a reduced cost in future which is outlined in the savings section below.

78. Building Safety Managers: There is a need for roles to be developed that cater for the new responsibilities emanating from the Building Safety Act. This includes the collation of the golden thread of information for each building in scope, registration of 'in scope' buildings for submission to the regulator, achieving building safety certification and ensuring ongoing compliance with relevant requirements.

	Landlord Controlled Heating Account
79.	As reported in the July 2023 Cabinet report, the balance on the landlord controlled heating account is anticipated to remain at £3.5M during 2023/24. At the July meeting, Cabinet agreed to the principal of incremental increases in charges over a period of 5 years in order to mitigate the deficit.
80.	Proposed charges will be consulted on concurrent with proposals for rent and service charges.
81.	The quarter 2 estimate for landlord controlled heating is largely unchanged from quarter 1 and currently shows a projected £3.5M deficit as at 31 March 2024.
	HRA Capital Programme
82.	A review of the capital programme as at quarter 2 has identified slippage in the programme of £9M, and underspends of £1.7M over and above the position reported at quarter 1.
83.	Of the £9M slippage, £6M relates to time limited capital budgets, and £3M to projects with ongoing annual budgets. For those projects that are time limited, the remaining future year budgets will be reprofiled accordingly. For those projects with annual budgets, it is proposed to slip budgets to 2024/25 but proposals on how to utilise those budgets to be discussed by the Capital Board as part of wider discussions on the proposed 5 year programme from 2024/25 onwards to be discussed at the November meeting.
84.	The key slippages in the programme are roofing contracts (£2.25M) which arise due to the procurement timescales between the current contract ending and procurement for a new contract; Canberra Towers (£3.65M), for which the profile of spend has been revised following award of grant, windows and doors (£0.9M) due to recruitment & retention in Housing Operations, £0.3M on fire safety works, £0.6M at Holyrood house and £0.6M Warden Alarm, and £0.85M across other projects.
85.	The agreed scope of the 1000 parking spaces programme is expected to be delivered during Q3 without fully utilising the carried forward budget, with the underspend expected to be £0.7M. In addition, the cancellation of the fire alarms upgrade program has been proposed, as alarms are compliant with current legislation, which will release £0.8M across 5 years. Other minor underspends of £0.2M have also been identified.
86.	It is proposed that underspends in 2022/23 are utilised to fund potential overspends and to align resources to projects improving quality of homes as follows: - An additional £0.2M for increased delivery of door entry schemes - Funding of £0.1M to replace the external pipework and valves as part of the heating upgrade work at Holyrood estate, which did not form part of the original scope of work - Funding of £0.3M towards Telemeter upgrades. This is a new request and is in respect of necessary upgrades to the electrical meters and cabling in order to facilitate meter replacements. This will be subject to further funding request for 2024/25 - Additional £0.2M for structural repair works to properties - £0.9M to address potential overspend on Fire risk assessment remedial works - £0.2M toward Decent Neighbourhoods projects
87.	In addition to the above proposals for 2023/24, it is also proposed that Housing Operations are reprioritised in year to address continuing void issues. Currently, the level of voids is extremely high, with rental loss of some £770k in quarter 1 alone. This level of income loss cannot be sustained.
88.	The proposal is for a number of Housing Operations trades staff to be redirected from other work programmes for a period of 12 months to focus on reducing void turnaround.
89.	The benefit to the HRA will be a reduction in voids with consequential increase in income to the HRA. Consequent reductions in void losses are difficult to predict and, allowing for timescales for reprioritisation it will be unlikely a significant reduction will be evident in 2023/24, but a revised assumption will be built into the HRA business plan from 2024/25 onwards.

	HRA Business Plan
90.	The HRA 40 year business plan for 2024/25 is currently being developed.
91.	Housing Management restructuring has progressed and is currently being consulted upon, with a view to implementation in 2024. The likely saving associated with the restructure is £0.14M compared to the existing structure, taking into account posts deleted as a result of voluntary redundancy and subject to feedback from consultation work.
92.	A number of posts elsewhere in the HRA have also been subject to voluntary redundancy. The saving in respect of these posts from 2024/25 onwards is expected to be £0.16M per annum. Service redesigns within affected areas are being planned for Q4 2023/24.
93.	A review of direct charges between the General Fund and HRA have identified some areas where direct contributions do not align to key priorities in the HRA. Proposals to cease or reduce contributions to the Integrated Commissioning Unit (ICU) and Skills & Employment are currently being worked through.
94.	The use of debt recovery agencies to recover former tenant debt arrears with no forwarding address is currently being investigated, where possible.
95.	Ensuring that income from rent is maximised in future years, reviewing the current policy on rent premia and discounts. At the time of writing, the government had not launched its expected consultation on rental income policy for 2024/25 and beyond, and the implications to the HRA are therefore not yet known.
96.	Undertaking a review of existing stock and the potential to dispose of unviable properties, and the reinvestment of capital receipt back into the capital programme.
97.	Service Charges: Work is continuing on reviewing existing service charges to determine the current level of cost recovery, and to look at areas where service charges are not currently levied. Proposals are currently being finalised and it is intended to consult on proposals during the autumn and concurrent with rent proposals and landlord controlled heating charges, with formal approval of service charges expected in February 2024.
98.	Continue to explore external funding opportunities to support the capital programme.
99.	Other proposals are outlined in Appendix 6.
	<u>Conclusion and Next Steps</u>
100.	This report updates on the work to implement the financial strategy as agreed by Council in July 2023, including new cost control measures for 2023/24 and beyond. The aim is to continue work on stabilising the budget by reducing the forecast in-year overspend. These measures are also helping to reduce the budget shortfall in 2024/25 and beyond.
101.	After the implementation of the proposals in this report, an overspend of £14.1M is forecast in the current year, and there is a budget shortfall of £37.8M in 2024/25, rising to £44.9M in 2025/26 and £52.4M in 2026/27 (per table 4).
102.	The further work commissioned from CIPFA supports the seriousness of the predicament the council faces, broadly confirming the ‘worst case’ forecasts.
103.	Currently, a consequence of the in-year deficit is the council faces using all its available MTFR reserve in 2023/24 and compromising funding for transformation and service redesign activity if the transformation and organisational redesign reserve has to be utilised. This will be in contravention of the policy set that requires one off funds to be held in reserves to fund one of expenditure.
104.	If the general fund balance is utilised instead, this will leave the balance at 50% of the recommended minimal level that CIPFA recommends as viable to operate within, but is lawful. The scale of the

shortfall estimated for 2024/25, at £37.8M is around 17% of the net revenue budget. This is a large gap to bridge given the time available, and a S114 notice, where the S151 officer reports the council has insufficient funds to meet its expenditure, remains a significant risk.

105. There must also be a focus on improving the council's financial resilience, by assessing reserves and financial risks faced. The report has highlighted a number of these risks and where possible begins to address these risks, for example, by setting aside modest sums. However, the council continues to be exposed to considerable financial risks such as the budget pressures from the challenge of managing strong service demand, coping with inflationary costs and from other economic impacts such as high interest rates on borrowing costs and lower than expected business rates and council tax revenues.

106. Capacity to transform services, making improvements whilst also removing costs, has also been highlighted above and reserves created to support this work. Much more work will need to come forward, at pace, to establish the service and financial benefits of transformation and the extent to which it can be relied on to help close the future budget gaps identified in this report.

107. In summary, whilst this report make progress across the financial challenges faced, there remains a significant financial risk to the authority. Many of the challenges faced are common across the local government sector, as demonstrated by media reports of several authorities contemplating S114 notices following in the recent footsteps of Birmingham City Council and others. It will be crucial that further reports are brought forward for Cabinet to consider, with further proposals to reduce overspending and help achieve an ongoing balanced budget. Work will therefore continue, at pace, and Cabinet can expect further updates ahead of the local government finance settlement expected in December (which announces funding support from Government for 2024/25) and the Council budget setting meeting in February 2024.

RESOURCE IMPLICATIONS

108. **<u>Capital/Revenue</u>**

The revenue and capital implications are contained in the report.

109. **<u>HR Implications</u>**

The cost control proposals contained within this report and those in the July report do have implications on the number of full time equivalent posts within the council. The following table details the overall impact. We have given the Redundancy Payments Service advance notification of potential redundancies. We will follow normal council processes of consultation with employees and unions, selection for roles and redeployment. We are taking proactive action to try to redeploy as many employees within the council as we can.

110. <u>Table 6 - The estimated impact of full-time equivalent staff</u>

Directorate	2023/24 Total FTE	2024/25 Total FTE	2025/26 Total FTE	2026/27 Total FTE
Children & Learning	29.7	39.3	39.3	39.3
Corporate Services	28.5	34.3	34.3	34.3
Place	27.6	24.4	24.6	28.4
Strategy & Performance and CEO		0.4	0.4	0.4
Wellbeing & Housing	12.5	1.0	1.0	1.0
Grand Total	**98.4**	**99.4**	**99.6**	**103.4**

Property/Other

111. The implications for property are outlined in the report.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

112. Budget reports are consistent with the Section 151 Officer's role to align budget with the aims of the Council and also the duty to ensure good financial administration.

Other Legal Implications:

113. The proposals within this report have been put forward having regard to the council's duties under the Equalities Act 2010 and the Human Rights Act 1998, together with other pervasive legislation. Where required, individual projects, proposals and programmes will be subject to completion of EISA's as part of the governance and decision making foundations.

RISK MANAGEMENT IMPLICATIONS

114. The financial forecast included in this report are based upon a variety of assumptions, including funding, future spending projections and savings delivery.

115. Financial projections have been based on the best known information on the likely cost and demand for services for 2023/24 and beyond. External factors add further to uncertainty with the cost of living crisis, energy costs, labour shortages, increases with interest rates and no national agreement for the in-year pay award for local authorities. Nor is there any certainty on funding from Government. The Local Government Finance Policy Statement published in December 2022 provided some indications on how the settlement may look for 2024/25, however this is subject to change. These all present significant levels of uncertainty and potential financial risk and instability.

116. Delivery of a high level of savings will be critical to the authority's future financial stability. The need to implement and achieve a high level of savings to balance the budget is in itself a major risk – as any significant non delivery can easily lead to major overspending and the council has inadequate reserves with which to cover this risk.

Savings are already monitored as part of the in-year work on comparing budget to forecasts. In key areas of financial risk such as Children's Services and Adult Social Care fortnightly 'intensive care' sessions are underway involving service Executive Directors and the Executive Director Corporate Services (S151 Officer) to check the latest position and how budget pressures can be managed and mitigated.

117. The spending and funding assumptions outlined in this report will be subject to continual review over the coming months to ensure maximum opportunity is given to protect the council's short term and medium term financial stability, by flagging any changes to the financial situation faced.

118. The council's external auditors have reported audit findings recently to the council's Governance Committee. It includes reference to uncertainty, "which may cast significant doubt on the Council's ability to continue to operate the current planned operational services within available sources of funding. This is caused by the Council's revenue reserves being insufficient to cover the Council's risks and highlights the potential for a s114 notice being required within the next 12 months".

POLICY FRAMEWORK IMPLICATIONS

119. The proposals contained in the report are in accordance with the council's Policy Framework Plan.

KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	All

SUPPORTING DOCUMENTATION

Appendices

1.	CIPFA Robustness of Forecast Review - Executive Summary
2.	Changes to Budgetary Pressures
3.	Cost Control Measures – Second Tranche
4.	Cash Limited Budgets
5.	Changes to the General Fund Capital Programme
6.	HRA Business Plan Proposals

Documents In Members' Rooms

1.	Second Tranche of Cost Control Measures - Summary Sheets (item by item)

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out?	No

Privacy Impact Assessment

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out?	No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	The Revenue Budget 2023/24, Medium Term Financial Strategy and Capital Programme (Approved by council in February 2023)	
2.	Medium Term Financial Strategy Update (Cabinet/Council July 2023)	