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| <b>DECISION-MAKER:</b>        | <b>GOVERNANCE COMMITTEE</b>  |   |                           |
| <b>SUBJECT:</b>               | <b>CIPFA REVIEW</b>  |   |                           |
| <b>DATE OF DECISION:</b>      | <b>13 NOVEMBER 2023</b>  |   |                           |
| <b>REPORT OF:</b>             | <b>EXECUTIVE DIRECTOR CORPORATE SERVICES AND SECTION 151 OFFICER</b> |   |                           |
| <b><u>CONTACT DETAILS</u></b> |  |   |                           |
| <b>Executive Director</b>     | <b>Title:</b>  | <b>Executive Director Corporate Services</b>  |                           |
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#### STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

#### BRIEF SUMMARY

On 19<sup>th</sup> July 2023 Council received a report updating on the Medium Term Financial Strategy (MTFS) and the financial strategy to achieve a balanced and sustainable budget for next year and beyond. That work was and continues to be informed by the work of CIPFA (the Chartered Institute of Public Finance and Accountancy) who have reviewed the financial management and the financial resilience of the authority. The CIPFA work was also presented to Governance Committee on 24 July 2023.

The report presents a further update on the additional work that has been undertaken by the CIPFA on the financial position of the council, following the review of the robustness of forecasts.

It also reports on progress to date with implementing the new financial strategy.

The additional CIPFA work was reported to Cabinet on 17<sup>th</sup> October 2023, alongside a further tranche of cost control measures and an update on the progress with the updated financial strategy.

#### RECOMMENDATIONS:

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| (i) | The conclusions of the CIPFA report and the ongoing work to promote the updated financial strategy are noted. |
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#### REASONS FOR REPORT RECOMMENDATIONS

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| 1. | To keep the Committee informed of the latest financial position and the advice received from CIPFA. |
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#### ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

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| 2. | The original CIPFA report informs a new financial strategy, which seeks to ensure the council is financially sustainable with balanced budgets. A second report was commissioned to look at likely scenarios, given the uncertainties of the financial position and a 'broad-brush' review of the scenarios that may arise. The second CIPFA report |
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|  | was therefore building on the earlier work of a new financial strategy without which would mean the council being financially unsustainable.  |
| <b>DETAIL (Including consultation carried out)</b> |   |
|  | <b>CONSULTATION</b>   |
| 3.   | Not applicable.   |
|  | <b>CIPFA REPORT UPDATE</b>  |
| 4.   | CIPFA was originally commissioned to undertake a review of the Council's financial resilience and financial management. Also assessed were the effectiveness of the council's financial management capability, its internal processes, and its operations. This report was presented to Cabinet and Council on 19th July this year and subsequently considered by Governance Committee on 24th July.  |
| 5.   | A second report was commissioned to review the estimates within the Medium Term Financial Strategy (MTFS) and an executive summary of the CIPFA robustness of forecast review is provided at Appendix 1.  |
| 6.   | It was recognised that the original CIPFA 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. The additional report focused on (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.         |
| 7.   | The new 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."  |
| 8.   | 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.   |
| 9.   | An initial meeting of the Finance Improvement Group, chaired by the Executive Director for Corporate Services, has also been held and work commenced on the specific improvements to financial management CIPFA have put forward following their original report. This group will lead on the detail needed for improvements to financial and service planning and budgeting, based on the priorities CIPFA have set. Improving financial systems and ensuring the council is equipped across the organisation with the skills and access to information to plan and manage budgets will be a central aim of the group. |
|  | <b>Financial Strategy</b>   |
| 10.  | Immediate Actions. The progress to date on the various actions identified in the July MTFS report are as follows:<br>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.  |

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|     | <p>2. Star Chamber sessions reviewing savings proposals, efficiencies and income generation options have continued throughout the summer with further sessions planned.</p> <p>3. Working with the programme management office, plans have been developed to deliver the cost control measures identified.</p> <p>4. The status rating on savings proposals has been implemented.</p> <p>5. The finance opinion on achievability has been implemented and is utilised in deciding the proposals to bring forward.</p> <p>6. All proposals brought 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.</p> <p>7. CIPFA have now completed their review and are finalising the action plan and the Target Operating Model for finance.</p> <p>8. The monthly monitoring update to Cabinet has been implemented alongside the more detailed MTFS report.</p> <p>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.</p> <p>10. Quarterly MTFS reports have been implemented.</p> |
| 11. | An update on the progress with the strategy was given to the 17th October Cabinet, which is still broadly the position at the time of writing and is as follows:   |
| 12. | <b>Step 1 Review Budgets:</b> All actions have been completed. There is further work progressing to ensure regular reviews of the pressures and assumptions within the MTFS.   |
| 13. | <b>Step 2 Right Size:</b> 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.   |
| 14. | <b>Step 3 Stabilisation:</b> The cost control panel continues to operate and further cost control measures have been brought forward.  |
| 15. | <p>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.</p> <p>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.</p> <p>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.</p>  |
| 16. | 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.  |
| 17. | Work on the transformation programme is progressing alongside an overarching improvement plan, which will be discussed with the newly established Improvement  |

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|     | Board. See Appendix 2 for the Board's terms of reference. Work on updating and developing the benefit realisation plans from the transformation and improvement programmes is also continuing.   |  |   |   |  |
| 18. | 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.   |  |   |   |  |
| 19. | <b>Step 4 Sustainable:</b> 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 of sound governance. 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: |  |   |   |  |
| 20. | Staffing   | Accommodation  | Assets  | Systems & Processes   | Partners   |
|     | HR policies and allowances and the updating of JD/PS<br>Service reviews with a reduction of a minimum 10%<br>Skills audit & review of training   | Childrens homes<br>Supported accommodation<br>Housing voids (HRA)<br>Housing related support | Full asset review<br><br>Disposal & consolidation methodology | Main systems improvements – Care Director & Business World<br>Service centre<br>Debt management<br>ICT consolidation of systems | Review of section 75 agreements<br><br>Review of the integrated commissioning unit |
| 21. | 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. See Appendix 3 for the Board's terms of reference.   |  |   |   |  |
| 22. | <b>Step 5 Purposeful Investment:</b> The new Council Strategic Capital Board has been established and schemes have started to be reviewed and prioritised. This Board was set-up as part of the new financial strategy approach agreed by Council on the 19th July, whereby capital investment plans are reviewed to ensure schemes are delivering the optimum value for money for the council and benefits are fully considered taking account of the financial challenges the council faces. The terms of reference of the Strategic Capital Board were reported to Council in July and are include in the link below:   |  |   |   |  |

[Appendix 8 - Strategic Capital Board Terms of Reference.pdf \(southampton.gov.uk\)](https://southampton.gov.uk)

**Updated Financial Position**

23. The 17th October Cabinet meeting received a report with the updated financial forecast from the MTFs and additional cost control measures. The updated position is presented in the table below and the additional cost control measures are included for information at Appendix 4.

24. Table 1 Updated Forecast Budget Shortfall 2023/24 to 2026/27

|  | 2023/24<br>£M | 2024/25<br>£M | 2025/26<br>£M | 2026/27<br>£M |
|--|---------------|---------------|---------------|---------------|
| <b>Forecast Budget Shortfall July 2023</b>   | <b>20.90</b>  | <b>46.14</b>  | <b>50.07</b>  | <b>56.97</b>  |
| 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)        |
| <b>Updated Forecast Budget Shortfall (forecast as at end of September)</b>         | <b>14.08</b>  | <b>38.30</b>  | <b>45.34</b>  | <b>53.30</b>  |
| 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)        |
| <b>Updated Forecast Budget Shortfall</b>   | <b>14.09</b>  | <b>37.82</b>  | <b>44.86</b>  | <b>52.42</b>  |

Numbers are rounded

25. The cost control measures 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. When combined with the measures reported to Council in July it brings the total cost control measures to date for 2023/24 to £16.63M.

26. Per table 1, the shortfall for 2023/24 stands at £14.1M. Urgent work is on-going to mitigate this sum further, but if the in-year deficit is not reduced from this level, all of the £9.4M forecast balance on the Medium Term Financial Risk (MTFR) reserve would be required to meet it and £4.67M from other sources. For example, any balance remaining on the £4.47M Cabinet agreed be set aside in the Transformation and Organisational Redesign reserves or from temporary use of any other earmarked reserves.

27. The Cabinet report of 17th October 2023 noted that the risk of a S114 notice 'remains a severe one'.

28. A further update on the budget and progress to date on closing the budget gap is expected to be presented at cabinet on 29 November 2023. This will include additional cost control measures for the current year and proposals future years savings.

**RESOURCE IMPLICATIONS**

**Capital/Revenue**

29. As set out above.

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| <b><u>Property/Other</u></b>  |   |
| 30.   | No applicable   |
| <b>LEGAL IMPLICATIONS</b>   |   |
| <b><u>Statutory power to undertake proposals in the report:</u></b> |   |
| 31.   | Section 111 Local Government Act 1972 and S1 Localism Act 2011. The CIPFA report will inform the financial strategy and the council's duty to balance its budget. |
| <b><u>Other Legal Implications:</u></b>                             |   |
| 32.   | None.   |
| <b>RISK MANAGEMENT IMPLICATIONS</b>                                 |   |
| 33.   | The CIPFA review is intended to assist the council with financial risk management and our financial resilience  |
| <b>POLICY FRAMEWORK IMPLICATIONS</b>                                |   |
| 34.   | Not applicable  |

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| <b>KEY DECISION?</b>                   | <b>Yes/No</b>                        |
| <b>WARDS/COMMUNITIES AFFECTED:</b>     | <b>None</b>                          |
| <b><u>SUPPORTING DOCUMENTATION</u></b> |                                      |
| <b>Appendices</b>                      |                                      |
| 1.                                     | CIPFA Review Summary                 |
| 2.                                     | Improvement Board terms of reference |
| 3.                                     | Renaissance Board terms of reference |
| 4.                                     | Cost Control – second tranche        |
| <b>Documents In Members' Rooms</b>     |                                      |
| 1.                                     | None                                 |

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| <b>Equality Impact Assessment</b>  |  |        |
| Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out. |  | Yes/No |
| <b>Privacy Impact Assessment</b>   |  |        |
| Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.               |  | Yes/No |
| <b>Other Background Documents</b>  |  |        |
| <b>Other Background documents available for inspection at:</b>   |  |        |
| Title of Background Paper(s)   | Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable) |        |
| 1.   | None   |        |