

Southampton City Council

Validating financial data behind revised MTFP and identifying potential budgetary scenarios

Report Summary

August 2023

Southampton City Council commissioned this update to CIPFA’s work conducted earlier this year to review the financial management and the financial resilience of the Council. The work carried out in August sought to validate the figures in the Council’s revised MTFP by considering the robustness of the arrangements to forecast the financial position as at July including the estimates of growth pressures; 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 to consider potential broad-brush scenarios that might arise. The figures in the report reflect the end of July position.

The key findings were:

1. Southampton went into the year with non-school usable reserves of £49.59m, having used almost half of its usable reserves to support the 2022-23 budget. The General Fund Balance was at £10.7m. The February budget envisaged drawing on £20.6m to leave non balance useable reserves of just c£29m. This was equivalent to just 11% of expected 2023-24 net expenditure. This was an already precarious position, especially in the light of then known likely further rises in demand for social care and children’s services.
2. We have reviewed the list of additional pressures, unrealised savings and additional commitments identified to the July Council as adding c£30m to the authority’s expected 2023-24 spend. Although we identified some discretionary items and other items that might be deferred or did not appear to be contractual commitments, these were on the margin, and it is clear 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. Just four or five budget lines account for almost 50% of the additional pressure – some £14m of overspending.
3. We identified a range of potential broad-brush funding gap scenarios depending on the success of the cost avoidance programme and the extent to which the star chamber can force through cash savings as identified in the table below. Scenario 3 is the likely outcome if all the additional savings identified as green and amber on Finance’s spreadsheet are brought forward and delivered. Scenario 4 is if the Place portfolio delivers savings equivalent to one third of its budget but no substantive further savings other than those already on the finance spreadsheet are identified in other portfolios.

Potential financial position scenarios				
	Funding gap			
	23/24	24/25	25/26	26/27
	£m	£m	£m	£m
1. No action to address deficit	-0.71	-54.20	-112.75	-178.17
2. No further savings identified beyond those identified to July Council	8.37	-37.52	-87.59	-144.57
3. All savings currently categorised as green are realised	9.27	-31.49	-75.56	-127.25
4. Star chamber forces through one third reduction in current Place budget to 26/27, but no further major savings identified in ASC and C&L portfolios	21.84	-5.87	-37.59	-76.98
5. Star chamber can provide £30m savings in 23/24 but structural issues are not addressed	29.53	4.86	-23.45	-58.63

4. We expect the most likely of these scenarios to be the 4th. But even if the 5th is achieved the continuing future demand pressures are such that finances the following year will be equally precarious and reserves will be depleted to an unsustainable level and there will be the pain of a further £25m in savings to identify to bring the reserves to an acceptable level. So financial sustainability requires a more strategic approach that provides for restructuring over the next two years.
5. From conversations with officers and review of portfolio budgets, we found there was a good awareness of how the structural overspending could be addressed and efficiencies realised in the medium term. Headway is already being made on the Home to School Travel budget. But restructuring and transformational changes in practice will take much longer to realise benefits and efficiencies for the Adult Social Care and Looked After Children budgets. And the MTFs rightly envisages further additional growth in demand in these areas beyond 2023-24.
6. A plan needs to identify transparently the action that will be taken to address the structural overspending in the relevant Directorates, together with timescales and any investment requirement. And also how for example a reduction in overall staff numbers across the authority is going to be achieved and funded. And reflect any structural reforms brought about because of star chamber decisions.

Conclusion

7. 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.