DECISION-MAKER:		CABINET COUNCIL		
SUBJECT:		MEDIUM TERM FINANCIAL STRATEGY UPDATE		
DATE OF DECISION:		CABINET (19 JULY 2023) COUNCIL (19 JULY 2023)		
REPORT OF:		CABINET MEMBER FOR FINANCE & CHANGE		
CONTACT DETAILS				
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STATEMENT OF CONFIDENTIALITY

Appendix 12 and Appendix 13 are 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

This report updates on the budget position for 2023/24 and beyond. It outlines the financial strategy adopted and actions being undertaken to reduce expenditure to within budget for 2023/24 and to achieve a sustainable budget for next year and over the lifetime of the Medium Term Financial Strategy (MTFS). Cabinet and the Executive Management Team (EMT) have prioritised this work to ensure we are doing all we can to achieve a balanced and sustainable budget despite significant inflationary, demand and cost of living pressures. There is a full recognition of the financial situation and the strategy laid out aims to take the organisation to a sustainable financial footing, where we can invest purposefully to ensure the city is growing to its full potential to be the city of opportunity.

This report deals with our plan and actions to prevent a deficit in this year's budget.

Whilst we do not face the historic problems of some high profile authorities which over the last decade have taken material capital and commercial risks and reached borrowing levels that cannot be sustained, we do, however, face material revenue

pressures following budget decisions over that same period where we now face additional challenges because we did not maximise council tax increases which have reduced our capacity to raise resources. At the same time the council made insufficient savings against growing budget pressures.

When the 2023/24 budget was agreed it was evident the council faced significant and serious budget challenges with a heavy reliance on reserves. Following this report the Cabinet, Executive Management Team and the new S151 Officer, immediately engaged CIPFA (the Chartered Institute of Public Finance and Accountancy) to review the financial management and the financial resilience of the organisation.

Recognising the situation the council faced, work on a revised Medium Term Financial Strategy began immediately. In the medium term the council remains ambitious to create economic prosperity through growth. But we recognise that the current position needs urgent and responsible attention alongside that focus on achieving this vision in the longer term.

The financial situation is still serious with a great deal of local and national uncertainty impacting on forecasts. As a result, CIPFA will be reviewing the forecast to ensure external validation and informal discussions have commenced with government to appraise them of our financial situation, as would be expected of any authority with this level of financial challenge.

We are committed to be proactive in the budget challenges, learning from other councils nationally who have faced similar challenge and have avoided financial failure by taking strong and early action. As the majority of our spend and continuing pressures is in Children and Adults Social Care, a main focus within our plans is to keep these areas under review with weekly meetings.

We are recommending that the council takes the type of urgent action and steps necessary, on a precautionary basis, as if the council were to fail to reach a balanced budget position. We must bring external challenge, best practice and a programme of measures; and so it is recommended an Improvement Board be created with external subject matter experts to challenge and oversee the progress to a sustainable budget.

Other councils have avoided financial failure by taking strong and early action to avoid the greater risk to frontline services which would occur by not taking action. By acting in this transparent and clear way we aim to identify and take the further difficult decisions that will be needed in a planned and effective manner that minimises the potential for disruption. Where councils have not responded in this proposed way, we have seen budget problems lasting longer and deeper.

We have also implemented a cost control panel, from advice from CIPFA, which will put strong controls on the council's expenditure.

Cabinet have requested weekly meetings looking at financial performance for both Adults and Children's, these will also bring in voluntary subject matter experts to enable challenge.

The council's 2022/23 outturn position was also a significant overspend within directorates and with some issues emerging that had not been known when setting the 2023/24 budget.

The council's new S151 Officer and the Executive Management Team (EMT) have reviewed the financial framework the council operates under. Changes to improve budgetary control and an approach to support identifying the major savings needed to ensure a balanced budget are covered in this report.

The full review of the financial position has projected that the in-year forecast may be significantly above the approved revenue budget and reserves available. The cost control measures brought forward in this report do help to reduce the forecast, but more will need to be done if the council is to achieve a balanced position in the current financial year.

It should be noted that these figures are estimates at this stage and contain some contingency for increasing demand in areas where expenditure is heavily driven by demand pressure.

The following additional actions have been taken immediately:

1. Cash limited budgets are introduced in this report and savings targets issued.
2. Cabinet and EMT have held deep dive and 'star chamber' style challenge sessions to identify and review cost control measures. Star Chambers will continue through the year to identify savings for next financial year, whilst the 'intensive care' sessions will focus on controlling pressures and costs.
3. Ensure all savings proposals in this year and future years are supported by clear delivery plans with a focus on delivering prior to the start of the financial year going forward.
4. The introduction of a clear status rating for Cabinet and EMT to be aware of when considering proposals. These status ratings being concept, work in progress, delivery plan in place, and implemented.
5. 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.
6. Based on the rating and finance opinion, only savings will come forward that are either delivered or have a plan for delivery and have an achievability rating of green.
7. The appointment of the Chartered Institute of Public Finance and Accountancy (CIPFA) to review the council's financial sustainability and financial management practices.
8. Cabinet have requested that a short monthly monitoring statement is brought forward to complement the more detailed quarterly monitoring report.

9. The implementation of a signed accountability statement for budget holders, which will support the introduction of cash limited budgets and the duty to manage within that resource.
10. The introduction of quarterly MTFS updates to Cabinet including further cost control measures.

These cost control measures have been brought forward as a means to help offset the budget pressures faced and details are given in this report. Cost control will continue throughout the year.

The council has limited reserves available before it would need to drawdown on its statutory general fund balance. CIPFA advise that this balance should sit at a minimum of 5% of spend, this would be £10M for the council, which is the current balance.

Due to the uncertainty of demand some sensitivity analysis has been carried out on the areas of high demand (see paragraph 33).

This report is a detailed document, representing a milestone in adopting a Financial Strategy as a framework to help resolve the council's financial challenges, with supporting information and strategies outlined and attached where relevant.

To assist the reader, the report covers the following areas (with paragraph numbers in brackets):

- Background (8 – 12)
- council priorities (13 - 14)
- CIPFA resilience and financial management review (15 - 23)
- Financial strategy (24 - 31)
- Review of budgets (32 - 47)
- Right sizing the budget (48 - 79)
- Stabilisation (80 - 89)
- Sustainable Budget (90 -112)
- Purposeful Investment (113 – 117)
- Housing Revenue Account (118 - 130)
- Consultation policy (131)
- Conclusion and Next Steps (132 - 133)

The report appendices are listed at the end of this report.

RECOMMENDATIONS:

	General Fund - Revenue It is recommended that Cabinet:

	i)	Notes the updated budget position and MTFS forecast.
	ii)	Notes the content of the draft CIPFA Review report at Appendix 1 and the further work that CIPFA are undertaking to support the council in improving its financial position.
	iii)	Notes the approach as outlined in the Financial Strategy set out below (paras 24 to 31)
	iv)	Notes and endorses the setting up of a voluntary improvement board as outlined in paragraph 29.
	v)	Notes and endorses a move to 'cash limited' budgets for each service, which is intended to reinforce accountability and control. See paragraphs 49 to 54 on how this will operate.
	vi)	Notes the Reserves Policy at Appendix 4.
	vii)	Notes and endorses the parameters for the fees & charges policy as set out in paragraphs 69 to 79.
	viii)	Notes and endorses the in-year budget cost control measures, which are mitigation to ensure the council lives within its agreed budget for 2023/24 attached at Appendix 6.
	ix)	Notes the content of the procurement strategy and procurement forward programme 2023-25 contained at paragraph 108, appendix 7 and annex 7.1.
	x)	Notes the proposed revisions to the Financial Procedure Rules as described in paragraphs 54 and 113 to 117, and set out in detail at Appendix 9 and subject to any comments and changes once this change has been considered at Governance Committee.
	xi)	Notes the delegation sought to provide authority to the Executive Director Corporate Services (S151 Officer) following consultation with the relevant Cabinet Member to accept Health Determinants Research Collaboration funding and approve spend in the event the funding is received (see paragraphs 99 to 102).
	<u>Housing Revenue Account</u> It is recommended that Cabinet:	
	xii)	Notes the budget pressures facing the Housing Revenue Account and the measures being considered to mitigate these set out in Appendix 12.
	xiii)	Notes the approach to recovering costs of the Landlord Controlled Heating Account as set out in paragraphs 123 to 130 and specifically option 2 of a phased increase over five years.
	<u>Capital Programme</u> It is recommended that Cabinet:	
	xiv)	Notes and endorses the creation of a new Strategic Capital Board (paragraph 114), with its terms of reference given in Appendix 8.
	xv)	Applies an indicator limit of no more than 11% for the ratio of capital financing to the Net Revenue Budget of the council for the General Fund. This is a key Prudential Indicator which will limit the scale of the capital programme's impact on the revenue budget (see paras 42 and 45).
	xvi)	Notes and endorses the in-year budget adjustments to the General Fund capital programme, as detailed in paragraph 117.
	xvii)	Notes and endorses the aim of reviewing the whole capital programme against the criteria of Purposeful Investment (see paragraphs 30 and 113-117).
	xviii)	Notes the plans for transformation and notes the delegation to the Executive Director Corporate Services to apply, following consultation with the Cabinet member for Finance and

		Change and subject to a business case, capital receipts to the transformation programme in line with the strategy agreed at the February 2023 Council meeting. The current balance held on capital receipts is around £2.8M.
	General Fund – Revenue It is recommended that Council:	
	i)	Notes the updated budget position and MTFS forecast.
	ii)	Notes the content of the draft CIPFA Review report at Appendix 1 and the further work that CIPFA are undertaking to support the council in improving its financial position.
	iii)	Agrees the approach as outlined in the Financial Strategy set out below (paras 24 to 31)
	iv)	Agrees to the setting up of a voluntary improvement board as outlined in paragraph 29.
	v)	Supports and endorses a move to 'cash limited' budgets for each service, which is intended to reinforce accountability and control. See paragraphs 49 to 54 on how this will operate.
	vi)	Agrees the Reserves Policy at Appendix 4.
	vii)	Agrees the parameters for the fees & charges policy as set out in paragraphs 69 to 79.
	viii)	Approves the in-year budget cost control measures, which are mitigation to ensure the council lives within its agreed budget for 2023/24 attached at Appendix 6.
	ix)	Agrees the procurement strategy and procurement forward programme 2023-25 contained at paragraph 108, appendix 7 and Annex 7.1 to go forward to procurement, subject to review of the Cost Control Panel.
	x)	Agrees the proposed revisions to the Financial Procedure Rules as described in paragraphs 54 and 113 to 117, and set out in detail at Appendix 9, subject to any comments and changes once this change has been considered at Governance Committee.
	xi)	Agrees to delegate authority to the Executive Director Corporate Services (S151 Officer), following consultation with the relevant Cabinet Member, to accept Health Determinants Research Collaboration funding and approve spend in the event the funding is received (see paragraphs 99 to 102).
	Housing Revenue Account It is recommended that Council:	
	xii)	Notes the budget pressures facing the Housing Revenue Account and the measures being considered to mitigate these set out in Appendix 12.
	xiii)	Approves the approach to recovering costs of the Landlord Controlled Heating Account as set out in paragraphs 123 to 130 and specifically option 2 of a phased increase over five years.
	Capital Programme It is recommended that Council:	
	xiv)	Approves the creation of a new Strategic Capital Board (para 114), with its terms of reference given in Appendix 8.
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	xvi)	Approves the in-year budget adjustments to the General Fund capital programme, as detailed in paragraph 117.
	xvii)	Supports the aim of reviewing the whole capital programme against the criteria of Purposeful Investment (see paragraphs 30 and 113-117).
	xviii)	Notes the plans for transformation and agrees the delegation to the Executive Director Corporate Services to apply, following consultation with the Cabinet member for Finance and Change and subject to a business case, capital receipts to the transformation programme in line with the strategy agreed at the February 2023 council meeting. The current balance held on capital receipts is around £2.8M.

REASONS FOR REPORT RECOMMENDATIONS

1.	Against a backdrop of the challenging economic climate, detailed in paragraph 4, the council is facing significant pressures in all areas, and is showing signs of financial stress as described in the CIPFA Financial Management Model. Despite these pressures it is focussed on sizing the expenditure to meet the resources available whilst delivering on the corporate plan and manifesto pledges. The delivery of a balanced budget for 2023/24 and a sustainable financial plan for 2024/25 onwards is non-negotiable and the council has a collective responsibility to work together to achieve this.
2.	The report details the outcome of a full review of pressures, assumptions and the cost control measures that have been identified to date. These measures must be taken immediately to help reduce the forecast in-year pressure. The report also details the conclusions of the review by the Chartered Institute of Public Finance and Accountancy (CIPFA) that has been undertaken, as well as further work needed.
3.	As a result, Cabinet and the Executive Management Team have been working on a new financial strategy to balance the council's finances in the medium term and to strengthen the balance sheet position thereby the improving financial resilience of the organisation. Any decisions regarding the budget have been set against the political priorities of: 1. Ensuring delivery of the manifesto 2. Supporting residents with the cost of living crisis 3. Increasing income and growing the economy 4. Ensuring efficient services providing value for money for residents 5. Any decision taken should not increase demand in another part of the council.
4.	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. Part of the background to the financial challenges the council faces is national economic issues that have impacted on costs as well as continued pressure of demand for our local services. These include, (but are not limited to), for example: • 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 (NB the Bank of England raised its base rate to 5% in June 2023, compared with 1.25% 12 months earlier). • 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 has also impacted on contractual costs and continues to influence the costs arising from the capital programme.
5.	The economic and other pressures have compounded the council's financial challenges, at a time when it was already applying reserves as a stop gap to support the budget (with £20.6M used for this purpose in 2023/24) and has previously applied a council tax freeze in 2022/23 foregoing a 2% increase in council tax and 1% including Adult Social Care precept to help the financial situation.
6.	The same economic pressures faced on the General Fund, coupled with the decision made in February 2022 to freeze rents and service charges for 2022/23 (when most authorities implemented a 4.1% rise), has presented major financial challenges to the HRA. The one year freeze in rents has meant that over 40 years, an estimated £157M of income has been foregone. The HRA must not only present a balanced budget for 2023/24, but it must also demonstrate that spending plans are affordable over a 40 year horizon to manage its resources and maintain the housing stock in good condition for tenants.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
7.	An approach of failing to take actions in-year and apply a new Financial Strategy would lead to a large forecast overspend which would mean the council being financially unsustainable and the issuing of a S114 notice. This would result in Government intervention. This is not a recommended way forward. Work will need to continue to increase certainty over the likely outturn position. Actions and plans being taken in this report give a positive start and significant further work will be undertaken over the summer and beyond to increase certainty and improve the financial position. The Housing Revenue Account would also face extra financial challenges, albeit these would be over the medium term and may have difficulty meeting obligations as a landlord over that period. No action with regard to the Dedicated Schools Grant (DSG) and the budget deficits currently with individual schools (total £4.5M) would also carry significant risk for the council. The DSG deficit is currently £10.1M but a temporary statutory override means that this is not included in the council's main revenue budget and is therefore not factored into the budget shortfall. This override expires on 1 April 2026 and therefore any deficit would impact on the General Fund at that point. School deficits remain with the council, should those schools be forced to become an academy upon an Ofsted assessment of 'requires improvement'.
DETAIL (including consultation carried out)	
	<u>Background</u>
	February 2023 MTFS
8.	Full Council approved a Medium Term Financial Strategy (MTFS) for the period 2023/24 to 2026/27 in February 2023. The aim of the MTFS is to provide a strategic financial framework for the delivery of the council's priorities.
9.	Table 1 below summarises the MTFS as reported in February 2023. The 2023/24 budget was balanced using £20.6M of reserves and a recurrent budget shortfall of around £21M - £25M per annum after 2023/24 was forecast.

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

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M
Net Expenditure	221.45	250.50	258.26	266.58
Funding	(221.45)	(229.28)	(235.70)	(241.79)
Forecast Budget Shortfall	**0.00**	**21.22**	**22.56**	**24.79**

Numbers are rounded

2022/23 General Fund Outturn

11. There was an outturn deficit of £11.38M on the General Fund for 2022/23, which was required to be met from a draw down on the Medium Term Financial Risk Reserve, as reported in the Revenue and Capital Outturn 2022/23 report elsewhere on this agenda.

12. The combined use of reserves to meet both the 2022/23 outturn overspend and to balance the 2023/24 budget has reduced reserves. This not only weakens the council's financial resilience but also limits the scope for funding 'invest to save' and transformation work and providing time to embed new ways of working.

Council Priorities

13. The MTFS is framed by the Corporate Plan which sets out the council's direction up to 2030 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. The plan outlines four goals and the things both the council and others in the City are doing to achieve them. The four goals set out in the plan are:

14. These goals, together with the political priorities of the Administration as set out in paragraph 3, form the basis for decisions around the development of the MTFS.

CIPFA Resilience and Financial Management Review

15. CIPFA was commissioned to undertake a review of Southampton City 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. A copy of the draft report is attached at Appendix 1, which reflects an earlier position as at the end of May 2023 for financial forecasts. Further work will be done to verify the current forecast position, after which the report will be updated and the revised report will be presented to Cabinet, alongside the improvement plan.

Financial Resilience

16. The CIPFA report highlights 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. The report goes on to say that "this erosion of reserves means that these cannot be utilised in the future years to support

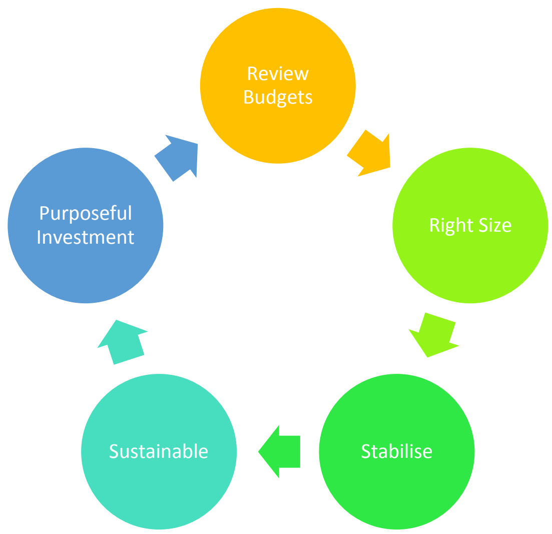
	the Council's finances and in reality, places the organisation at significant risk during 2023/24 and beyond. The Council requires a plan to replenish (reserves) should be put in place."
17.	CIPFA also state that though the council has presented a balanced budget for the 2023/24 financial year, "at the conclusion of 2022/23 the Council had delivered 39% of its planned savings if this rate continues then only £7.8m of the planned £20m would be achieved in 2023/24 placing even greater pressure on delivering the budget. A review of 2022/23 also indicated an overspend run rate averaging out at £1.8m per month". The report goes on to state that "This does suggest that the budget will not be delivered as planned which in itself included savings of £20m which must be considered at risk of non-delivery" and that "If the Council does not bring spending under control and deliver savings in our opinion there is a significant risk to sustainability. This would lead to the potential for considering a s114 notice later in the 2023/24 financial year".
18.	The CIPFA review states that "the council needs to immediately put in place tight controls over savings delivery, cash limit spending and develop mitigation plans for non-delivery of these".
19.	This report describes a planned approach that will address these points highlighted in the review by introducing a 'cash limited' budget approach. It will also highlight the mitigation plans aimed at better controlling in-year pressures, whether these be down to unachieved savings or new spending pressures emerging.
	Financial Management
20.	The financial management part of the review utilises CIPFA's Financial Management Model (FM Model), which can support and drive effective performance in financial management and financial governance throughout a council. It applies an internationally recognised framework and diagnostic tool, enabling councils to have an independent assessment of their financial management against world class best practices in the public sector. The core of the FM Model uses interviews and documentary evidence to examine the following areas: • **Enabling transformation:** the finance team has input into strategic and operational plans taking into account proactive risk management, clear strategic direction, and focus-based outcomes. • **Supporting performance:** finance teams are actively committed to continuous improvement focused on efficient and effective delivery and council performance. • **Delivering accountability:** financial information is accurate, timely and focuses on controls, probity, compliance, and accountability.
21.	There is a great deal of detail around the assessment. In summary the CIPFA review 'scores' the authority, based on its findings for Financial Management. The rating is a 2 Star, out of a possible 4 Star, with key findings including the following: • The results show an overall mixed position for the council. • Enabling transformations scores less well – this is not uncommon for local authorities. • Overall the budget setting and monitoring process meets many of the best practice statements and questions. • Overall the council does have an effective framework of financial accountability and reporting in line with professional and statutory requirements. • The budget setting process is not always based on a thorough understanding of costs and demand drivers leading to issues with monitoring and managing budget pressures.
22.	The following areas for development were among those identified:

- Strengthen the budget setting process with greater ownership and engagement across the council with finance seen as the custodian of the process and an advisor to services.
- The approach to strategic budgeting and financial planning is developed to include a longer time frame (where possible), greater use of cost and demand driver intelligence and scenario planning.
- Consider the integration of finance into the assessment of future requirements and change programmes, not just at business case stage but from the outset.
- Pursue opportunities for change and transformation both within and external to the council, with partners. There needs to be the space and resource to design, develop and deliver transformation so creating that capacity by reflecting on current activity (at all levels) and determining priorities.
- Develop a finance service offer that can be communicated across the council.
- Review and refresh the role and function of finance business partners to ensure it is fit for purpose.
- Develop a culture of budget holder accountability and responsibility, a compliance framework that accompanies this and monitoring to ensure impact and value.
- Consider developing the approach and skills used to develop budgets and forecast within finance and the budget holder community.
- Continue to develop the role of budget holders to ensure engagement and ownership throughout the financial year.
- Alongside developing the business partner function review and address the finance function ‘transactional’ activity with an end to end assessment of what needs to change, the benefits and value.
- Consider a programme of process reviews with the aim of introducing efficiency, reducing work arounds and maximising output value.
- Evaluate the finance system and develop an improvement plan to maximise the functionality available, also its readiness for a self-serve environment.
- Broaden the MTFP conversation across all partners to capture wider opportunities for service delivery and efficiency.
- Try and make greater use of stakeholders to help develop services and introduce efficiencies.
- Ensure stakeholders get to see and hear results of consultation in policy decisions and service developments.
- Perhaps consider ensuring clarity around who are the stakeholders for finance through mapping and then a planned approach.

CIPFA Review – Conclusion

23. The CIPFA review makes clear “It is crucial that the council delivers the savings identified as planned (timing and value) and expenditure is controlled within the presented budget. Failure to do this will rapidly increase the risk of the need to issue a s114 notice either in 2023/24 or 2024/25 financial years”.

This initial report and recommendations will be the subject of discussion, following which an action plan will be agreed, suggesting ways to move the council from a two to a three star organisation and the direction of travel for continued improvement. The action plan will be tabled at Cabinet as part of the finalisation of the CIPFA report following the assistance to be provided in verifying the financial position.

	Financial Strategy
24.	Over the past four months the Cabinet and the Executive Management Team have formulated the following financial strategy and action plan (including brief status update), which is summarised at a high-level in Diagram 1:
25.	Diagram 1: Financial Strategy 
26.	**Step 1 Review Budgets – to establish the financial position** **Actions** A. Executive Directors will review all budgets for known pressures and risks – *Completed see paragraphs 32 to 34* B. Executive Directors will review all savings proposals including those unachieved from previous years and still remaining within the budget – *Completed see paragraphs 32 to 34, with saving proposals having received additional scrutiny from the Project Management Office to ensure robustness of plans behind them.* C. We will review all the assumptions the Medium Term Financial Strategy is built on – *Completed see paragraphs 35 to 41* D. We will review all prudential limits to ensure the revenue consequences of capital are affordable and reflected in the Medium Term Financial Strategy – *Completed see paragraphs 42 to 45*
27.	**Step 2 Right Size – to ensure there is clarity on what are affordable expenditure levels** **Actions** A. Cash limited budgets will be established – the principle of cash limited budgets established within affordable limits, and a move to ensuring where there is an overspend there is a deficit recovery plan to address the financial position – *Ongoing see paragraphs 49 to 54* B. We will establish a reserves strategy with a view to ensuring the council is rebuilding adequate reserves to cover the risks it is facing in the medium term – *Completed see paragraph 56* C. We will establish design principles for service reviews to ensure consistent design and focus on stabilisation and sustainability of the council – *Ongoing see paragraphs 69 to 79*
28.	**Step 3 Stabilisation – to remove in year overspend and ensure the structural deficit has been addressed and the reliance on reserves removed**

	A. Executive Directors will review all areas to establish cost control measures that are cashable in 2023/24 to ensure they are delivering within the agreed cash limit - *Ongoing see paragraphs 80 to 82, tranche 1 included in Appendix 6* B. A rigorous Cost Control Panel will be established and will review all expenditure with a view to reducing expenditure further to assist in bringing expenditure in line with income - *Ongoing see paragraphs 83 to 84* C. Council-wide voluntary redundancy scheme to be opened – *Ongoing the scheme was opened on the 14 June and closed on the 4 July. The outcome of the scheme is currently being considered.* D. Monthly financial monitoring updates will be provided to EMT and Cabinet E. Star Chambers (assessment and agreement of savings to be proposed) and budget deep dives will continue over the summer with a view to bringing a budget report forward to Cabinet in the autumn, prior to any budget consultation required. F. Additional support and advice will be provided to the Finance portfolio holder to ensure there is robust challenge. - *Ongoing* G. The Cabinet and Executive Management Team will look for savings through activity reviews. These activity reviews will look at those activities that fall into 2 areas: - Choice – areas that the council has a choice in providing and the customer has a choice of supplier. These tend to be areas where the council can charge for its services. – *Ongoing to be completed September 2023* - Do Differently – can the activity be delivered differently using automation, self-service or partnerships - *Ongoing to be completed September 2023* H. Executive Directors will establish the benefits realisation plans for the strands of the council's transformation plan - Our Tomorrow. - Programme 1 Building for Brilliance – a focus on children's services - Programme 2 Ambitious Futures – a focus on transforming adult social care services - Programme 3 Enabling Excellence – a focus on enabling all services to be efficient and effective by improving systems and our support services. These programmes will require most services to be reviewed leading to new business plans and target operating models. – *Ongoing see paragraphs 85 to 88* F. Explore opportunities for securing additional external funding – *Ongoing see paragraph 89*
29.	**Step 4 Sustainable – to ensure the council is sustainable and able to withstand economic and financial shocks.** A. Key cost drivers have been identified and these will need to be tracked so the organisation can move quickly and efficiently if costs start to rise - *Ongoing see paragraphs 90 to 109* B. City renaissance – a focus on growing the city and increasing the income of the council – *Ongoing see paragraphs 110 to 112, board established* C. A voluntary improvement board, with external independent experts, will be set up to build upon the work already started with this action plan. – *Ongoing* D. A compulsory financial management training programme will be introduced for all staff with additional training for budget holders to ensure our employees are financially aware and exercising financial prudence. E. Accountability statements will be introduced for all budget holders to ensure they are agreeing to and understand the budget that is available to them to deliver services, and they are clear that this budget is cash limited. This will be completed as part of the 2024/25 budget setting process.

F. Job descriptions and personal specifications will be reviewed to ensure strong financial acumen is reflected where the role involves the management of financial resources. This will be completed as part of the 2024/25 budget setting process.

30. **Step 5 Purposeful Investment – all investment, either revenue or capital, to have a clear purpose and strong business case**

A. All capital schemes will be reviewed to ensure they are an investment with a purpose in line with those agreed. – *Ongoing see paragraphs 113 to 117, initial review completed*
B. Review of the corporate plan, people plan and the supporting strategies to reflect the priorities of purposeful investment and a sustainable organisation.
C. 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.
D. Establish a Strategic Capital Board to ensure capital projects are being prioritised and the investment is based on strong business cases and delivery plans – *Ongoing see paragraphs 113 to 117).*

31. The financial monitoring reports will reflect any updates on this strategy, with an opening budget report for the next financial year being brought in the Autumn.

Further work needs to be carried out on increasing reserves, ensuring the Housing Revenue Account is sustainable and is following the above financial strategy, as well as ensuring there are deficit recovery plans in place for the dedicated schools grant – high needs block and the landlord heating account.

The action plan above gives a focus and clear strategy for stabilising the council's general fund account with a view to creating a sustainable council that can deliver on its priorities. The delivery of this plan will be monitored and managed by the improvement board noted in paragraph 29.

Review of Budgets

Budget Pressures and Unachievable Savings

32. Since the MTFS was agreed in February 2023 new budget pressures have emerged for both the current and future financial years which require addressing. These are largely due to national economic influences and an increase in demand in children's and adult's services as discussed at the start of the report. Alongside this there are a number of savings proposals agreed in February or earlier years that are no longer considered achievable.

33. There is still some uncertainty over the level of budget pressures faced, particularly where they are demand related. Table 2 below sets out the estimated best, mid and worst-case scenarios for budget pressures and unachievable savings in the current year. All tables and narrative that follow are based on the worst case scenario.

Table 2 Budget Pressures and Unachievable Savings Scenarios 2023/24

	Best £M	Mid £M	Worst £M
Unachievable Savings	2.59	2.59	2.71
Budget Pressures	14.86	19.00	24.97
Changes to Inflation	2.10	2.10	2.10
New Proposed Commitments	0.18	0.18	0.20
Total Pressures	**19.73**	**23.87**	**29.99**
Difference to Worse Case	(10.26)	(6.12)	

Numbers are rounded

34. Budget pressures include the on-going impact of pressures that emerged towards the end of 2022/23 and for 2023/24 they include:

- Home to School Transport (£4.4M),
- Adult Social Care (£4.0M)
- IT Services (£1.9M),

As well as further demand led pressures within Children's Social Care (up to £7.3M) and Adults' (up to £2.7M) and unachievable Adult Social Care contract review savings (£0.8M). Further details of budget pressures and unachievable savings based on the estimated worse case are provided in Appendix 2.

MTFS Assumptions

35. The February 2023 MTFS included the following assumptions regarding inflation and related matters:

- Pay Inflation – 4% for 2023/24 and 2% thereafter
- Contract Inflation – 10.4% 2023/24, 2024/25 7.4%, 3.2% 2025/26 and 2.6% 2026/27
- Adults' care provider contracts - £6.8M 2023/24, £5M for 2024/25 and £2.5M thereafter
- New borrowing – 5% interest rate

36. The local government pay award offer for 2023/24 (which has been rejected by the unions) has been costed at around 5.6%, creating a budgetary pressure of £2.0M for 2023/24 and ongoing.

37. General inflation continues to remain high, with the Consumer Price Index for May 2023 being 8.7% (unchanged from April). The contract inflation assumptions included within the MTFS are still considered prudent.

38. Table 3 below sets out the key funding assumptions that were included in the MTFS agreed in February 2023.

39. Table 3 Key Funding Assumptions MTFS February 2023

2022/23	Item	2023/24	2024/25	2025/26	2026/27
£1,644.39	Increase in Core council Tax Charge	2.99%	1.99%	1.99%	1.99%
£186.31	Increase in Adult Social Care Precept	2.00%	0.00%	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%

* Other specific grants have been rolled into Revenue Support Grant in 2023/24

40. The Local Government Finance Policy Statement issued in December 2022 stated that the council tax referendum principles for 2024/25 would be the same as for 2023/24, at up to a 3% increase for core council tax and a 2% increase for the adult social care precept. The maximum allowable increases for 2024/25 were not built into the MTFS agreed in February 2023, however given the continued high levels of inflation and pressures on adult social care these higher limits will be reflected in this updated MTFS. A 1% increase in core council tax adds £1.1M additional funding in 2024/25 and a 2% increase for the adult social care precept adds £2.3M, which will be used solely to meet budgetary pressures within that service. In this updated MTFS a referendum limit of 3% for

core council tax has been assumed for each year of the MTFS, however the 2% adult social care precept has only been assumed for 2024/25.

41. The September Consumer Price Index rate is the basis for the increase in Small Business Rates Multiplier (or compensatory grant equivalent) for the following year and is also expected to be used to uplift Revenue Support Grant and Top Up Grant. CPI is therefore a key factor for both inflationary pressures and funding assumptions and will be closely monitored during the year.

Table 4 Revised Key Assumptions

2022/23	Item	2023/24	2024/25	2025/26	2026/27
£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%
	Pay Award	5.6%	2.0%	2.0%	2.0%
	CPI	7.4%	3.2%	2.6%	2.7%
	Borrowing Rates	5.5%	5.0%	5.0%	5.0%

Capital Programme and Prudential Limits

42. The capital programme is under review and the associated prudential limits have also been reviewed. The Prudential rules applied to the Capital programme are set out in the Capital Strategy each year and are designed to ensure the programme considers its costs when being formulated and stays within agreed boundaries to promote affordability.

43. A key indicator is the ratio of Capital Financing to the Net Revenue Budget of the council. The indicators proposed and agreed at the time the budget was approved by council is given below and covers both borrowing for the General Fund and for the HRA.

Table 5: Prudential Indicator: Ratio of financing costs to net revenue stream %

	2022/23 Actual	2022/23 Forecast	Variance	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
	%	%	%	%	%	%	%
General Fund	9.58	9.81	(0.23)	10.30	10.57	10.15	9.91
HRA	6.81	6.85	(0.0)	8.79	10.33	11.75	12.51
Total	**8.79**	**10.11**	**(1.32)**	**9.92**	**10.51**	**10.55**	**10.57**

44. Following the highly publicised over borrowing of some local authorities it is expected that CIPFA and central government will propose a strengthening to prudential limits by including upper limits on the level of borrowing. It is proposed that the council introduces a ceiling for the above indicator, prior to any change to the Prudential Code, and it should be set for the General Fund at a maximum of 11% of Net Revenue Budget. Furthermore, no new borrowing should be agreed to unless it complies with the criteria of purposeful investment (see below).

45. The current review of the capital programme will focus on applying the criteria of Purposeful Investment (see paragraph 115) and also assessing any slippage in the current programme and ensuring the phasing is on a realistic and informed basis for all items currently in the programme.

Any revision to the programme will be reported to either Cabinet or Council in accordance with the Financial Procedure Rules.

Updated MTFS Position

46. Table 6 below sets out the revised MTFS position taking into account the worse case budgetary pressures outlined and updated assumptions, before any cost control measures are taken into account. Cash limit targets for 2025/26 don't allow for any top-up of reserves, due to the increase in pressures in that year.

47. Table 6 Updated Forecast Budget Shortfall 2023/24 to 2026/27(before cost control measures)

	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
Updated Forecast Budget Shortfall (before funding changes and cost control measures)	**29.99**	**57.49**	**63.38**	**67.80**
Funding Changes	0.00	(3.48)	(4.83)	(6.27)
Transfers to/(from) Reserves	0.00	1.15		3.88
Updated Forecast Budget Shortfall (before cost control measures)	**29.99**	**55.16**	**58.55**	**65.42**

Numbers are rounded

Right Sizing the Budget

48. Given the scale of the challenge now being experienced, with large budget shortfalls being forecast, to achieve a balanced and sustainable budget new approaches will need to be introduced. Tactical savings and efficiencies alone will not deliver the scale of reduction required to meet the legal obligation of a balanced budget. This report describes what else is needed, which includes cash limited budgets, service transformation and a review of key costs drivers (staffing, accommodation, assets, partnerships and systems and processes) which are areas where focus is now essential in order to deliver a balanced, sustainable budget for 2024/25 and after.

New Financial Operating Model – Cash Limited Budgets

49. To enforce greater resilience and ensure there is a culture of financial management and control, the council will now introduce 'cash limited' budgets for Directorate and Portfolios to adhere to. Each Executive Director will be expected to manage his or her services within the approved cash limited budget and to provide the Executive Director Corporate Services with such information as is required to facilitate and regularly monitor budgetary control. An Executive Director or Cabinet Member may not incur any expenditure or forego income if this will result in the approved budget being exceeded.

50. Should budget monitoring work indicate that, in-year, the cash limited budget is likely to be exceeded, the relevant Executive Director will be responsible for bringing forward, at the earliest opportunity, a plan of mitigation (deficit recovery plan) that will result in the overspend being contained within budget. Such a plan will be expected to be sufficiently detailed, with timeframes, milestones, performance indicators and any resources needed, that it is considered a robust plan by the Executive Director Corporate Services.

51.	An Executive Director or Cabinet Member must plan to stay within their cash limited budgets at all times. As the CIPFA Review report recommends, a clear message of ownership and accountability for sound financial management needs to be reinforced across the council. As part of our improvement plan a compliance framework will be developed and enforced.
52.	For the purpose of clarity, a cash limited budget only relates to the "controllable" elements of the budget and exclude: • Capital financing charges (which are accounted for centrally) • Central support service charges
53.	To support this approach, the Finance team will reinforce financial competency across the council by organising and delivering appropriate training for budget holders.
54.	Appendix 3 sets out the cash limited budgets for each directorate over the period of the MTFS. The cash limits are currently on a directorate basis to ensure transparency for Executive Directors and budget holders. They can and will be worked up to provide limits on a portfolios basis, now that the cabinet portfolios have been confirmed following the recent by-election. To sit alongside this, the Financial Procedure Rules (FPRs) have also been amended to reflect the new Financial Strategy and reinforce sound financial governance. The FPR's are attached (appendix 9) with proposed changes highlighted including changes to capital governance (See paragraphs 113 to 117). Key changes include: • Being clear the FPR are mandatory rules, and if ignored deliberately could result in disciplinary action. • The written undertaking from Executive Directors and budget holders that they understand their budgets and will abide by cash limited allocations. • That Chief Officers should ensure staff are aware of the FPR. • That if overspends do occur, a formal written action plan will be proposed to mitigate the pressure, including milestones and targets and agreed with the S151 officer. • The creation of any new reserve, or change in use of reserve, needs agreement from the CFO and needs formal approval from Cabinet. • If the council is in a revenue overspend position, only carry forwards that relate to grant income will be considered. • The capital programme to operate within the limits set within the Capital Strategy, applying the agreed limits from the indicators adopted from the Prudential Code, to ensure affordability. These rule changes are intended to strength the financial framework and adherence to the rules to strengthen sound financial governance.
	Financial Resilience
55.	The key resilience messages from the CIPFA review work are given below, which in their view if not resolved will continue to threaten sustainability are: • **Reserves should not be used for short term revenue deficiencies**. Reserves are approaching a level which will not provide long term resilience and the policy for their application should be re-enforced, planned and include replenishment. • **Our review has indicated that spend control both in some directorates and therefore as a corporate collective has not been effective.** It is evident that there has been a culture that

- overspends will be covered. As a consequence, cash limiting and a culture of collective ownership of overspends and demand pressures (and how the organisation responds) needs to be implemented effectively and immediately.
- The development and delivery of effective savings proposals and plans is crucial. A 39% (the savings achieved in 2022/23 versus those planned) result is not satisfactory. The reasons behind this vary but clearly need to improve. We would suggest that the process for development is collective, owned by budget holders and that alternative proposals are developed as mitigation and all are stress tested through various scenarios.

General and Earmarked Revenue Reserves Policy

56. 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. A copy of the policy is attached at Appendix 4.

Dedicated Schools Grant (DSG) Deficit Recovery Plan

57. The national Delivering Better Value Programme (DBV), led by Newton Europe and CIPFA, has projected through a detailed diagnostic process of needs and trends, that Southampton's high needs deficit will increase from £11.1M at the end of 2021/2022, to £60.2M in April 2027. This is the projected position, inclusive of £2.5M being mitigated through the use of a £1M grant to support the implementation of a delivery programme designed to improve outcomes for children and young people with Special Educational Needs and Disabilities (SEND), with a focus on financial sustainability.

58. It should be noted that the forecast position for end of year 2023 was £19.1M. As a consequence of the additional funding to the High Needs Block from the DfE and SEND Services' strategy for reducing pressures in this area over the past 5 years, as of March 2023, a reduction to the deficit was achieved, which now sits at £10.1M. The DVB Programme leads fed back that they had not observed a positive movement in any other local authority's high needs deficits of those in the scheme.

59. The forecast spend for 2023/24 is £43.1M against a £43.8M budget. This would reduce the high needs deficit by a further £0.7M, leading to an overall deficit position of £9.4M. This sits against the predicted increased deficit position by the DBV Programme of £26.4M. This would imply a deficit at April 2027 of £43.2M.

60. The primary strategy for managing the increase in High Needs is threefold:
    1. Reduce the number of children requiring an Education and Health Care Plan through targeted early intervention support, through enhanced training and support to schools and parents.
    2. Reduce the number of children requiring a place at a special school, by improving the consistency of offer and inclusive practice at mainstream schools and by developing SEND units and resourced provisions within mainstream schools.
    3. Maintain a reduction in the reliance of placements in high cost out of city special independent school places, by enhancing the offer and facilities of local mainstream schools, and on the development of highly specialist units and resourced provisions.

    The workstreams for managing the deficit are as follows:

Scheme	Impact/outcome	Timeline for completion of work (cost benefits will take a number of years to be realised)	Funding

Inclusion charter, Ordinarily Available provision and Inclusion Audit	Improved inclusive practice in mainstream schools, improver experience and outcomes for C/YP and Parent Carers, reduction in EHCP's and special school placements.	Autumn 2023	SEND (Cost of design and print). Not a request for new money.
Development of SEND units and mainstream provisions in mainstream schools	Improved outcomes for children, reduction in independent special school places. Meet legal requirement for sufficiency of school places with particular regard to pupils with SEND.	1 unit opening September 2023, 1 unit opening January 2024.	High Needs top ups (included in High Needs Forecast position)
Autism in schools programme roll out to all schools in Southampton	Improved skills and knowledge. Better support and outcomes from C/YP. Reduction in EHC Plans and Special school places.	April 2025	£200k - DBV
SEMH Specialist Outreach Teacher	Improve skills and knowledge in supporting C/YP with SEMH needs. Improved outcomes for children. Reduction in EHCP's and special school placements.	April 2025	£160k - DBV
Neurodiversity course for parents	Improved experience for parents, improved outcomes for children, reduction in EHC Applications from parents.	April 2025	£250k - DBV
SEND Audit Manager	Improved skills and knowledge in mainstream schools. Improved experience and outcomes for C/YP and parents. Reduction in EHCP's and Special school placements.	April 2025	£160k - DBV
Special school expansion and reconfiguration.	Meeting legal obligations to provide a sufficiency of school places with specific	September 2026	SEND Capital Programme Funding - £40.2M

Work will need to continue, with the support of the national programme and learning from the approaches taken by other authorities facing their own deficits. A temporary statutory override means that the current deficit (£10.1M) is not a budget pressure in the council's main General Fund revenue budget and is therefore not factored into the overall budget shortfall. This override expires on 1 April 2026 and therefore any deficit would impact on the General Fund at that point. Hence, between now and 1 April 2026, the council will need to carefully and regularly monitor this deficit, which will be part of the updates to cabinet, and engage with other authorities and Government to control this deficit. This is likely to be a difficult challenge, which faces many councils nationally.

School Deficits

61. There are 12 out of 42 schools maintained by the council reporting a deficit balance as at the 31 March 2023 as shown in Table 3 below. This is one less than the number of schools reporting a deficit as at the previous year end but the total deficit has increased by £0.82M.

62. At the time of writing there are four schools in deficit working with the Director of Children and Learning, and the finance team to finalise their deficit recovery plans (DRP). These are:

- Hardmoor Nursery,
- Compass Alternative Provision,
- Townhill Junior
- St Marks All through school,

Mansbridge is still having difficulties managing their budget but has support and advice from SCC and the Chair of their Trust.

Five schools have plans to reduce their deficits by more than £0.1M with three expecting to return to a surplus at the end of 2023/24.

63. Table 7 – Schools in Deficit

	2021/22		2022/23		
	Deficit £M	No. of Schools	Deficit £M	No. of Schools	No. of schools without Finalised DRPs
Primary/Nursery	2.70	10	3.05	9	3
Secondary/Other	0.93	3	1.40	3	2
Total	3.63	13	4.45	12	5

64. During 2022/23 three schools, Polygon, Shirley Warren and Mansbridge, were issued with a Notice of Concern regarding their financial performance and accumulated deficit. Polygon managed to reduce the level of their deficit by 31 March 2023, but results so far are not following the DRP in 2023/24 which should see a further reduction of £0.17M. At the time of writing the council is still waiting for a deficit recovery plan from this school to demonstrate how further reductions in the deficit will be achieved. Shirley Warren has produced a deficit recovery plan, to return to surplus by March 2026, which the council has accepted.

However, it should be noted that 30 maintained Schools in the City are running a surplus amounting in total to £7.7M.

65. All schools, including those with a surplus, have to manage issues such as inflation, energy costs rises and salary increases. The number of children with special needs, emotional and mental health issues, behavioural problems has increased which has put further pressures on school and council budgets.

66. When a school is forced to become an academy by the Department for Education, normally following an inadequate Ofsted inspection grade, then the deficit on conversion becomes a charge to SCC's General Fund. There are currently two schools with an Ofsted grade "Requires Improvement"; with a combined deficit totalling £0.8M.

67. The Schools Finance team are working with schools and providing advice on areas where the schools need to make changes to return to surplus.

68. Schools that are unable to demonstrate that they can manage their budgets in these difficult times may benefit from further actions such as council employed staff with expertise in Governance roles, focussing on finances, human resources and education standards. Another alternative is the removal of financial delegation.

Fees & Charges

69. The decision on whether to make a charge (and the amount to charge) is not always in the control of the council. Broadly speaking, there are two types of services that the council can charge for; discretionary services and statutory services. The level of some charges is set by the government nationally (statutory charges) whilst on other services the council can apply some discretion on what may be charged for a service.

70.	Discretionary services are those which an authority has the power to but is not obliged to provide. The Localism Act 2011 allows authorities to charge for discretionary services offered under their general power of competence. Fees and charges for discretionary services can only be levied on a cost recovery basis. These costs should include indirect costs and overheads along with any investment required to retain or improve assets or infrastructure associated with providing services.
71.	Currently, services are responsible for reviewing their services charges and ensuring that appropriate decisions are taken for all discretionary charges.
72.	The cost of living crisis has impacted on all local authorities, pushing up costs, and it has highlighted a need to ensure fees and charges levied by the council keep pace with the costs of service provision. A new approach is therefore proposed for fees and charges, with all fees and charges where the council operates with discretion falling under this framework.
73.	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. Many other councils operate under similar guidelines with robust policies to ensure costs are being recovered where charges apply.
74.	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.
75.	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 (see paragraph 131).
76.	The in-year cost control measures which form part of this paper identify a number of areas where fees and charges will be increased in year, subject to any necessary consultation. Other areas will also be reviewed for any in-year increases to ensure costs are being covered and that the framework set out above of inflationary linked rises is being implemented from a position of recovering the relevant council costs associated with service provision.
77.	Based on an initial exercise to identify mandatory and discretionary fees, this includes an estimated £25.1M for discretionary fees and £2.8M for mandatory fees (excluding Adult Social Care), though there is further work to do to confirm this split. Initial indications are that for 2023/24, all areas of discretionary income apart from Port Health are expected to at least match budgeted income, suggesting a promising basis for future increases linked to inflation.
78.	It is proposed that a full schedule of fees and charges, both statutory and discretionary, be included with the annual budget for review by Full council in February. This will ensure a transparent, consistent and centralised approach to the annual review and approval of fees and charges. An initial list of fees and charges across the council (excluding Adults Services) is attached at Appendix

5 though further work is needed to ensure this is comprehensive and covering all areas where fees and charges are made.

79. Charges related to Adults Social Care will have a separate policy, due to the more complex nature of the charges which take into account 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.

<u>Stabilisation</u>

Cost Control Measures

80. Executive Directors have been working to identify cost control measures that can be implemented swiftly to help stabilise the financial position in 2023/24. The first tranche of cost control measures is set out in Appendix 6 and table 8 below shows the impact on the budget shortfall assuming the worse case scenario for budget pressures.

81. <u>Table 8 First Tranche of Cost Control Measures</u>

	2023/24 £M	**2024/25 £M**	**2025/26 £M**	**2026/27 £M**
Updated Budget Shortfall based on worse case scenario (before cost control measures)	29.99	55.16	58.55	65.42
First tranche of cost control measures	(9.08)	(9.02)	(8.48)	(8.44)
Updated Budget Shortfall based on worse case scenario	20.90	46.14	50.07	56.97

Numbers and rounded

82. Work is continuing on delivery plans for cost control measures that have been identified. Further star chambers will continue throughout the summer and beyond to identify further proposals to assist in meeting the budget shortfall and producing a sustainable council supporting the aim of being a city of opportunity.

Cost Control Panel

83. The council has been operating an “essential spend” process since August 2022 with any expenditure being required to meet one of the following justifications:

- Contractual agreement
- Legal requirement
- Service failure

Although this has helped to reduce costs to an extent, reductions in expenditure have not been as effective as required.

84. A rigorous Cost Control Panel has now been put in place, with decisions being taken at Executive Management Team level on a weekly basis. All spend requests will need to be robustly justified as essential to the council delivering on its political, contractual and legal obligations.

Service Transformation – Our Tomorrow

85. Our Tomorrow is the council’s overarching transformation plan which has 3 main programmes as set out below. The Adults and Childrens elements of the transformation plan will be prioritised as per Local Authority Data Explorer (Oflog data tool) published figures for 2021/22, the Council spent 85.6% of its core spending power on social care, in comparison to our nearest neighbours who average 69.9%, only Blackpool spent more than Southampton at 90.4%. These areas will be a focus for supporting reductions to spend and improving efficiency.

	Building for Brilliance (Children's Services Transformation)
86.	The aim of the Building for Brilliance programme is to achieve better outcomes for children and build a financially sustainable service. The six priorities balance a firm focus on practice with rigorous financial accountability: • Ensure that children get the right support at the right time, meeting need early, reducing demand and spend on statutory services. • Develop strong, vibrant localities where families can receive the help they need, and practitioners can share their knowledge and expertise. • Support children to remain within, or return to, their birth families, seeking out and reuniting family members, reducing care costs and freeing up placements for other children. • Promote permanence and placement stability, creating strong forever families and reducing increasingly costly alternatives. • Build a permanent, stable, energised workforce, increasing consistency for children and reducing agency spend. • Embed our practice framework and practice standards across the whole service, doing the basics brilliantly and being ambitious in our practice expectations.
	Ambitious Futures (Adult Social Care Transformation)
87.	The new Director of Adults, Housing and Health has worked intensively with colleagues since arriving in the early part of the year, to draw up the Ambitious Futures programme. This is a programme of work designed to improve outcomes for residents, better equip, train and develop staff and create a sustainable future. The programme is far reaching and divided into 8 workstreams. Key projects include: • Creation of a new Target Operating Model to support more prevention activity and earlier outcomes. • Improved access to advice and guidance • Better utilisation of Care TEC and assistive technology • Improvements to the hospital discharge process • Workforce development strategy
	Enabling Excellence (Council-wide Transformation)
88.	Enabling Excellence is a long-term, organisation-wide programme that aims to: • re-design our services to support the right sized organisation • reduce unnecessary bureaucracy and delays • provide better data, forecasting and demand management to inform our decision making • design our services to be more customer-focused, efficient and effective • help us work more effectively with partners Through the programme the council is building towards the agreed organisational target operating model through service redesign including the establishment of a service centre to expand the first time resolution approach and drive efficiencies. Process redesign and automation will be fundamental to supporting service re-design, enabling effective operation and service delivery within the agreed cash limited budgets. These are underpinned by the development and implementation of the council's people, data and digital strategies.

	External Funding
89.	The funding system for councils incentivises economic growth, with benefits such as additional business rate growth retained locally. The council's focus on the growth strategy to attract investment is highlighted in paragraphs 110-112 below. In support of pursuing the growth agenda the council also recognises the need to secure funding from sources other than central government, local council tax and business rates payers. We are committed to developing this, and that resources will be redirected to council priorities via the budget process within the overall caveats that: - • External grants and income will be maximised wherever possible to mitigate the effects of budget pressures. • Partnership working and funding opportunities will be explored wherever feasible. The council has a successful track-record of securing external funding within many areas. External funding should be used as a lever moving forward to stimulate transformation and to focus priorities rather than to support core activities. The growth strategy ensuring increased and continuous income alongside efficient and value for money services will contribute to a sustainable organisation.
	Sustainable Budget
	Cost Drivers
90.	The Executive Management Team has identified key cost drivers that are areas of common focus for achieving further cost reductions from a cross council perspective. These drivers will also be monitored on an ongoing basis to ensure costs are tracked, controlled and resources utilised effectively. These cost drivers are staffing, accommodation, assets, partnerships and systems & processes as outlined below.
	Staffing
91.	Around £137M per annum of General Fund spending is on staffing and we recognise that our colleagues are the most valuable asset we have, however through the stabilisation phase of the strategy it is inevitable there will need to be a reduction in the number of people we employ. With the number of workforce increasing significantly since 2019, this is no longer sustainable and a reduction in both temporary and permanent employees will need to take place.
92.	To remain sustainable it is important that we continue to monitor all aspects of staffing costs closely as we move forward. It is equally important that the people who remain with the organisation have the right skills and that our HR systems work for them.
93.	We are committed to the following: a) We will reduce the use of agency roles wherever possible, only retaining agency staff if they are the most cost effective and efficient method of recruitment for the service. Where we have short term requirements for subject matter experts we will ensure that there is a transfer of skills to non-agency staff as part of contracts and plans. b) We will recruit internally first. For all recruitment we will look for people with the values we require and providing support and training where required. c) We will review the standard leave year to address some of the service issues that are experienced as a result of the current approach. Developments to the HR system now mean we can offer different leave years with relatively little administrative burden. This will ease pressure on people trying to take annual leave prior to the close of the annual leave year.

	d) Additional allowances and benefits – we will review all allowances and benefits to ensure they are in line with the shift in both working patterns and place of work that has occurred as a result of the pandemic. e) We will establish a process to embed succession planning in directorate business plans. This will ensure staff have a clear career path and the appropriate training. Keeping the training expenditure focused on these areas, and ensuring we are spending the apprenticeship levy on growing our own colleagues. f) We will review all roles below grade 3 to establish whether it could be converted into an apprenticeship, with a view to providing employment to one of looked after children or a young person from the city. g) We will review the grading structure so we can provide career graded posts in areas that require training and professional qualifications so we can attract talent. h) We will look to recruit internally first and for external adverts we will utilise social media and council platforms to advertise helping to reduce the costs of advertising. i) We will continue to focus on developing our managers to support them in building and consolidating their skills to ensure we have an effective management cohort. j) We will review sickness absence to ensure that we are adhering to our policies. We will help people to return to work and we will review areas that were sickness absence is high to ensure we are tackling issues and taking preventative action. Sickness absence currently costs the council circa £3M a year. k) We will review the work previous completed on job families to ensure consistency of grade and gain a clear understanding of the where roles are undertaking similar tasks we are paying similar grades.
	Accommodation
94.	Getting the right accommodation for residents, including our tenants, and in particular people who are using our adult and children's social services, will help address the demand challenges we are facing, for example, a shortage of children's residential placements within the City has led to the use of expensive external settings. We are committed to the following: • We will develop a number of children's homes in the Southampton City area where the business case demonstrates positive and sustainable benefits. • We will review care leaver accommodation to ensure there is adequate provision • We will review supported accommodation for adult social care clients in line with the adult social care strategy. • We will review the capital programme to ensure investment is directed towards providing good quality sustainable homes. • We will encourage investment in the city to provide this accommodation.
	Assets
95.	The council requires a number of different categories of assets to deliver its services, and to help make it as efficient and effective as possible whilst ensuring our asset base supports our communities. These assets include: • Office accommodation • Depots • Investment properties • Sports and leisure facilities • Vehicles • IT equipment

96.	To ensure we are managing our costs effectively and achieving value for money, assets are one of the five key drivers we keep under review. To do this: a) We will introduce an organisational design principle of ensuring services are delivered from a minimal number of assets. b) We will review the home to school transport function to ensure we are delivering this in the most cost effective way. c) We will review the number of vehicles we have with a view to reducing them. This may have implications for ways in which we work and the redesign of services. d) We will look for the most cost effective green method of owning and maintaining assets. e) We will review all the operational property assets we occupy to achieve best value for money in relation to maintenance costs, utility costs and compliance with flexible working and corporate landlord principles, with a view to reducing the number whilst ensuring those that are retained are kept in an adequate state of repair. f) We will review the expenditure on assets in both capital and revenue terms to ensure this is in line with our purposeful investment principles. g) We will choose the most cost effective method of financing expenditure on our assets. We will look at lease versus buy options on all major purchases. h) We will keep commercial and investment properties under constant review to ensure capital and revenue values are achieving market levels and where they are not, effectively dispose of the assets. i) We will clearly identify and incorporate strategic assets in all future City wide master planning and regeneration strategies, with clearly defined timelines and updates. j) Land and property will be reviewed, monitored and controlled by the council's Property Board via the production of the council's Asset Management Plan, with all key decisions being made in line with the council's standing orders and constitution. The Property Board will report to the Strategic Capital Board and the Executive Management Board.
	Partnerships
97.	The council works in partnership across the city, region and nationally. These partnerships include: • Integrated Care System for Hampshire and the Isle of Wight • Central Government including (but not inclusive of) the Department of Housing, Communities and Levelling Up, Department of Education and the Department of Health and Social Care • Southampton Voluntary and Communities Organisations • The Police • Schools and Education providers
98.	To ensure we are managing our costs effectively and achieving value for money, partnerships are one of the five key drivers we will continue to develop by: a) We will review partnership arrangements to ensure they are value for money and deliver and achieve best outcomes for our residents. b) We will work with partners to review assets we occupy to achieve best value for money in relation to maintenance costs, utility costs and compliance with flexible working and corporate landlord principles. c) We will clearly identify and incorporate partnership strategic approaches in our ways of working.
99.	Southampton has been invited to put in a Stage 2 application for funding from the National Institute of Health Research (NIHR) to become a Health Determinants Research Collaboration (HDRC). HDRCs are collaborations between local authorities and the academic sector that focus on improving

	the wider determinants of health by boosting local authorities' capacity and capability to conduct high-quality research to tackle health inequalities. The funding is up to £5M over 5 years and, subject to final costing calculations, we intend to bid for the full amount.
100.	Our plan for the HDRC is to fund posts within a new 'Research and Development Hub'; this will include experts in research, evaluation and data science as well as officers to lead public engagement, research governance and grant writing. The HDRC will invest in developing our wider workforce so that they have the knowledge, skills and infrastructure to access and use evidence which will help SCC to become more intelligence-led in its work on the wider determinants of health. Being able to make evidence-informed decisions means that we will make better investments resulting in more cost-effective and improved services for our residents, ultimately improving health and reducing health inequalities.
101.	Public engagement and involvement is an important part of our HDRC plan. Through our partnerships with voluntary and community organisations, the HDRC will meaningfully involve residents from across the city in deciding what research is needed and how it should be done. Together with our communities, we will co-produce outputs from the research so that the learning is accessible to everyone.
102.	A further benefit of increased research capacity and culture, and improved data maturity through the HDRC is that we will be better placed to extract meaningful insights from a range of data, supporting a better level of forecasting and 'what if' scenario testing in key areas. This will allow us to proactively mitigate potential future demand issues and implement early interventions using informed decision making based on a better level of forecasting and 'what if' scenario testing.
	Systems & Processes
103.	The Enabling Excellence transformation programme noted at paragraph 88 will be a key aspect of delivering more efficient systems and processes. In addition to the Enabling Excellence programme, the following will be undertaken: a) We will bring forward a Digital Strategy with an ICT roadmap ensuring the council's digital processes and approaches are clear, including artificial intelligence, automation and cyber security elements. b) We will implement a financial management improvement programme to ensure all colleagues and in particular budget holders have access to easy to use financial information and processes, alongside appropriate training and guidance. c) We will ensure the HR service is supporting managers to design services that are fit for the future and that all employees and managers have access to easy to use systems and processes. This will also include a clear definition of what the organisation expects from Organisational Design, organisational development and learning and development. d) We will implement phase 1 of the Strategic Procurement Programme which will help to streamline processes and reduce costs. See paragraphs 104 to 109. e) Debt recovery systems and processes are also under review to ensure they are as efficient and effective as possible. There are a number of initiatives either underway or being explored to improve performance, both as part of BAU change and as part of corporate transformation projects, for example: • Working with the University of Southampton to understand how best to engage people with the debt recovery process • Automating reminder letters for certain types of debt • System improvements to Business World functionality • Implementing a 'dashboard' approach for former tenant arrears, providing more details on caseload and performance • Increasing cross-skilling of technical & training officers within the Customer Payment and Debt Team to improve resilience.

	f) In addition, the work the council does in its role as corporate appointee (where it manages finances on behalf of clients) is also under review as part of BAU change and corporate transformation as this function is also in scope of the Adult Transformation Programme (Ambitious Futures). A number of improvements have been made and are in train including reducing manual effort by increasing use of the Care Director system and reviewing and updating associated procedures to reflect this.
	<u>Strategic Procurement Programme</u>
104.	The scope of the current Strategic Procurement Programme (SPP) consists of known “Strategic” arrangements which need to be operational by the end of 2025/26. This encompasses upcoming non-Health and Social Care (H&SC) requirements/projects which are strategically significant to the council in terms of value, operational considerations, reputation or political importance. Some of these requirements are part of current contractual arrangements and others are new requirements.
105.	The current projects which make up the SPP are as listed below and are being treated as a programme to enable cross-organisational resource to be shared to minimise costs, develop expertise and increase efficiency. • St Mary's Leisure Centre (existing provider is Active Nation) • Electric Vehicle Charging (new project) • Commercial Waste (existing provider is TJ Waste) • Temporary Labour (existing provider is Comensura) • Property arrangement - SCC owned Construction Framework/Partnership (new requirement) • Highways (existing provider is BBLP - Balfour Beatty Living Places) • Citywatch (existing provider is BBLP) • Guildhall (existing provider is Live Nation) • Leisure (existing provider is Places for People) It is anticipated that a further SPP phase will be required to deal with future strategic projects which need to be in place after 2025/26.
106.	In order to ensure we are a sustainable organisation with a clear focus on the aim of being a city of opportunity: a) We will review the programme to ensure it is being procured within affordable levels and gives us flexibility when needed. b) We will set the strategic direction regarding services, contracts and arrangements. c) We will adopt a “delivery model assessment” (DMA) approach to improve the pre-procurement planning stage, which, where the agreed delivery model is to outsource, should result in more fit for purpose arrangements, resulting in less time and cost spent managing issues and disputes, contract changes, unacceptable service levels and re-procurements. The approach is based on central government best practice. d) We will ensure the programme aligns with the Southampton First policy which requires the council to objectively consider in-house delivery of services. This allows appropriate delivery models to be identified rather than simply assuming services should be procured from third party suppliers. e) We will ensure appropriate consideration of the Social Value and Green City Procurement Policy.
107.	A DMA will inform a recommendation on how services should be delivered moving forward - i.e. whether SCC should deliver a service(s) – or part of service(s) itself, procure from the market,

	through a combination of in-house and outsourced delivery or alternative commercial vehicles such as frameworks, joint ventures (JVs) or shared service models.
108.	The Procurement and Contract Management Strategy at Appendix 7 sets out a clear council's framework to procuring (or buying) goods, services and works over the next three years and managing the subsequent contracts, taking into consideration the latest government procurement legislation and initiatives as well as the council's own aims and objectives. The Strategy is designed to promote effective and efficient procurement and contract management across the whole council and is designed to ensure that there is a consistent and comprehensive approach in respect of the council's third party expenditure.
109.	Annex 7.1 to the Procurement and Contract Management Strategy (Appendix 7) is the procurement forward programme. This details all known non-health and care procurement projects for the period 1 April 2023 to 31 March 2025 inclusive, which were planned as at 1 April 2023 and have a forecast value of more than £5,000. It should be noted that urgent and unforeseen projects may be added to the procurement forward programme, and further work will be undertaken to add health and care procurement projects for the 2024/25 budget report.
	City Renaissance (Growth Strategy)
110.	Southampton is a 'City of Opportunity' and envisions a dynamic and aspirational future as a leading cultural, maritime and economic destination. The recently established 'Renaissance Board' will align public, private sector & major institutions around a growth agenda for the city which supports disadvantaged communities, optimise future growth and realises opportunities of the built environment to ensure Southampton is an attractive place to live, work, visit and learn.
111.	The master planning programme offers a key opportunity to look more closely at our current offer and our future potential to maximise the economic growth potential and realise subsequent benefits of increased council Tax and Business Rates. It will also aspire to deliver meaningful change for local people in terms of employment opportunities and improved skills.
112.	Southampton is continuing to benefit from the work undertaken to promote its City of Culture bid. The Culture Trust is seeking to amplify the city's vibrant cultural and natural assets, attracting additional investment and enhancing the visitor experiences. We also continue to work with the private sector, neighbouring authorities, the Local Enterprise Partnership and Government on the new Solent Freeport. This had the green light to proceed from Government last year and will promote growth through a range of economic and tax benefits that will attract investment to the Solent area. As reported to council in March 2022 this has the capacity to deliver an extra 56,000 direct and indirect jobs across the Solent area.
	<u>Purposeful Investment</u>
	Capital Programme - Governance
113.	The council currently has an agreed capital programme to 2027/28. This focuses on ensuring our assets are well maintained (e.g. roads) and enhancing the facilities for residents (e.g. The Outdoor Sports Centre). However, investment in capital also represents a cost for capital financing in the revenue budget and with rising interest rates and the expectation those rates will remain high for some time, the impact of financing this investment needs to be kept under constant review.
114.	With that in mind, a change to the governance framework is proposed for the capital programme. This is twofold (i) current and future expenditure will be assessed against the criteria of 'purposeful investment'. (ii) A new Strategic Capital Board will be established, with attendance by the Leader, Deputy Leader and Cabinet Member for Finance & Change, plus relevant Cabinet Member for areas under consideration.
115.	A criteria 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 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?

In particular taking account of the following considerations:

a) Solid Return on Investment (RoI) (e.g. generating significant external funding/investment or inward returns from the investment to the council)
b) Is it a major element necessary for the achievement of the Corporate Plan
c) A key commitment of the Administration

Item 3 in the above list will need to take account of affordability, given the current financial challenges and limitations.

116. The remit of the new Strategic Capital Board is attached in its terms of Reference (See Appendix 8), and the amended Financial Procedure Rules covering the capital programme are also attached (Appendix 9).

117. An initial review of the current approved capital programme, against the above criteria, has been undertaken and a number of changes are proposed, as summarised in Table 9 below. As a result of these changes and the financing associated, a £1.97M revenue saving, over 5 years, will be achieved in debt financing costs. More detailed is given in Appendix 10 of these changes to the programme.

Historically the council has had 30% slippage on capital projects, which results in budgeting for financing costs which do not materialise in year. By rephasing towards a more realistic achievable delivery plan, the council can accurately reflect the revenue costs. This will also allow for better project monitoring and reporting throughout the year. Work to assess delivery plans will continue throughout the year and be reported as appropriate.

A number of projects have been identified to be paused, pending an updated business case being presented to Strategic Capital Board to demonstrate that the project delivers Purposeful Investment for the council.

Table 9 – Changes to Capital Programme

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M	Total £M
Approved Budget	92.84	60.40	38.10	76.93	1.00	269.27
Reduce	(7.41)	(5.98)	(9.19)	(48.61)	0.00	(71.19)
Rephase	(7.91)	4.65	2.05	0.50	0.71	0.00
Revised Budget	**77.52**	**59.07**	**30.96**	**28.82**	**1.71**	**198.08**

Housing Revenue Account (HRA)

118. Southampton City Council (SCC) 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.

119. 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.

Cost pressures within the HRA

120. The Housing Revenue Account faces the same impacts from the national economic climate as does the General Fund, with inflation, interest costs and cost of living pressures being a key factor as well as the need for capital investment to maintain the housing stock. Details of the cost pressures within the HRA are provided in Appendix 12.

121. The HRA 40 year business plan has been updated to reflect the new and ongoing pressures outlined in Appendix 12. Indicatively this generates a potential saving requirement of £1M per annum by 2026/27, on existing spend plans, in order to maintain a working balance and ensure sufficient resource is built up to repay debt. With an increase in the capital programme also built in, the savings requirement builds to £3.5M plus per annum by 2026/27 (NB with forecast spend for the HRA being approx. £90M by then, this means around 3.9% of total budget savings being necessary).

122. Options for making this level of savings are included in Appendix 12 and will be subject to further work to build into worked up proposals. However, where pressures are identified that will have an impact in 2023/24, these will be offset by a reduction in the proposed revenue contribution to the capital programme. Currently this is budgeted at £4M and, as of June 2023, it is proposed to reduce the contribution by £2.05M.

Landlord Controlled Heating (LCH) Account

123. The Landlord Controlled Heating Account has been significantly adversely impacted by increasing energy costs during 2022/23, There was no decision made to increase LCH charges during 2022/23, with an increase of 100% applied from April 2023. The increase agreed was a compromise between cost recovery and minimising impact on tenants.

As a result, a deficit of £3.7M was forecast as at the end of 2022/23. The final position on the account was calculated within the closedown in April 2023 at £3.5M.

124. The account works as a ring fence within the HRA, and in line with HRA guidance the account cannot operate indefinitely at a planned deficit. Action is therefore required to remedy the account.

125. Energy is purchased in advance and currently, approx. 80% of the energy requirement to October 2023 has been purchased. Therefore, there is a degree of time lag before any changes to price are experienced. The energy price forecasts for electricity and gas are as follows. The next forecast is due after the end of June and no forecasts are available beyond 2024:

Table 10 Energy Price Forecasts

Fuel	% Purchased	Best Case	Medium Case	Worst Case
Electricity	79%	6.8% increase	7.8% increase	33.9% increase
Gas	80%	12.8% decrease	11.9% decrease	14.8% increase

(Source: Laser Energy market updated March 2023)

126. There are three main options for recovery:

1) A further significant increase in charges to tenants, likely followed by a reduction in charge after the deficit has been recovered.
2) Managed price increases over the next 5 years
3) Write off balance to HRA.

127.	The advantages of the first option would be a faster recovery; however, there would be a significant adverse impact on tenants, who are already struggling with the increase from April, and a significant increase in arrears would be expected; on the basis of a 30% increase in arrears, an additional contribution to the bad debt provision of £1M would be required in the short term. This would need to be found by making additional savings elsewhere in the HRA.
128.	The second option would be to manage price increases over a period of 5 years. Based on current energy cost forecasts, increases of 7% in 2024/25 and 10% per annum in 2025, 2026 and 2027 would need to be applied. A further advantage to this approach is a better ability to adjust charges to tenants in the event of any reductions in energy prices in future.
129.	The final option would be to write the balance off to the HRA. This effectively passes the cost of landlord-controlled heating across to all tenants rather than those receiving LCH. Currently, there is insufficient budget for a write-off of this scale and to do so would add a further requirement to make savings over and above those already required.
130.	It is recommended that the second option be adopted.
	Consultation Policy
131.	The Consultation Policy is a policy which aims to clearly set out the council's key commitments and principles when undertaking public consultations. The policy applies to all services within the council and partners and commissioned services undertaking a public consultation on behalf of Southampton City Council. The practice, commitments and principles of this policy underpin appropriate, meaningful consultation. The policy provides examples of statutory consultations and legitimate expectations which are non-statutory and sets out how consultations will be conducted and who will be consulted. It is attached in appendix 11 for information.
	Conclusion and Next Steps
132.	The council was aware it faced a very challenging financial year, and whilst there is a risk of a S114 notice, actions have been taken immediately to ensure the financial situation is stabilised with a view to delivering a sustainable council that invests purposefully in the aim of being the city of opportunity., The intention throughout this strategy is to create a council that is focused on leading and supporting an environment of welcoming growth and inward investment. The new financial strategy and actions are clearly outlined in this report and are intended to help manage the financial situation and the risks identified.
133.	Given the importance of the financial position and improvement to the future of the city and the council, an update on the progress with the Financial Strategy outlined above, and with further proposals for in-year cost control and proposed savings to balance the budget for 2024/25 onwards will be tabled at the next Council meeting in September.
RESOURCE IMPLICATIONS	
Capital/Revenue	
134.	The revenue and capital implications are contained in the report.
Property/Other	
135.	The implications for staffing and for property are outlined in the report.
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
136.	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:	
137.	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	
138.	The financial forecast included in this report are based upon a variety of assumptions, including funding, future spending projections and savings delivery.
139.	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 nationally agreed 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.
140.	Delivery of savings will be critical to the authority's future financial stability. These are already monitored as part of the in-year work on comparing budget to forecasts. In addition, key areas of financial risk such as Children's Services and Adults Social Care will have fortnightly 'intensive care' sessions involving service Executive Directors and the Executive Director Corporate Services to check the latest position with savings delivery and on budget pressures and mitigations.
141.	There are further potential risks which may result in additional financial pressures for 2023/24, which are being assessed. We will work with CIPFA and external assessors as a validation exercise.
142.	A further comment on financial risk is included in Appendix 13.
POLICY FRAMEWORK IMPLICATIONS	
143.	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 Review – draft report
2.	Budget pressures and unachievable savings
3.	Directorate Cash Limited Budgets
4.	General and Earmarked Revenue Reserves Policy
5.	Schedule of Fees and Charges
6.	Cost Control Measures – first tranche

7.	Procurement and Contract Management Strategy
8.	Strategic Capital Board – Terms of Reference
9.	Updated Financial Procedure Rules (FPRs)
10.	Capital Programme Update
11.	Consultation Policy - Draft
12.	HRA & other pressures and savings (CONFIDENTIAL)
13.	Financial Risk (CONFIDENTIAL)

Documents In Members' Rooms

1.	Cost Control Measures Summary Sheets (item by item)
2.	ESIA – Dial a Ride Service
3.	ESIA – Fees and Charges

Equality Impact Assessment	
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out?	Yes
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.		