

<b>DECISION-MAKER:</b>	GOVERNANCE COMMITTEE		
<b>SUBJECT:</b>	CIPFA REVIEW		
<b>DATE OF DECISION:</b>	24 JULY 2023		
<b>REPORT OF:</b>	EXECUTIVE DIRECTOR CORPORATE SERVICES AND SECTION 151 OFFICER		
<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title:</b>	Executive Director Corporate Services	
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<b>STATEMENT OF CONFIDENTIALITY</b>	
NOT APPLICABLE	
<b>BRIEF SUMMARY</b>	
<p>On 19<sup>th</sup> July 2023 Full council has received a report updating on the Medium Term Financial Strategy (MTFS) and the financial strategy to achieve a balanced and sustainable budget for next year and beyond. That work has been informed by the work of CIPFA (the Chartered Institute of Public Finance and Accountancy) who have reviewed the financial management and the financial resilience of the authority.</p>	
<p>A draft report from CIPFA was part of the update to full council, though further work is being undertaken to confirm the forecast financial position after which the report will be finalised and presented to cabinet.</p>	
<p>This report presents the draft CIPFA report to Governance Committee and the update also tabled at full council to the Financial Procedure Rules (FPRs) which are interconnected with the measures taken in response to the CIPFA report and the financial strategy.</p>	
<b>RECOMMENDATIONS:</b>	
(i)	Notes the CIPFA report and further work to finalise the report. Comments are invited.
(ii)	Notes the changes to the Financial Procedure Rules and also provides any comments.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	The CIPFA review is an important step in the financial strategy and future direction of the authority, and hence the draft report is tabled for consideration by the Committee.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
2.	The CIPFA report informs a new financial strategy, which seeks to ensure the council is financially sustainable with balanced budgets. As mentioned in the council MTFS report, 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.
<b>DETAIL (Including consultation carried out)</b>	
	<b>CONSULTATION</b>
3.	Not applicable
	<b>CIPFA Report</b>
4.	<p>The draft CIPFA review and changes to the Financial Procedure Rules (FPRs) were part of the report to full council on 19 July on the updated Medium Term Financial Strategy.</p> <p>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.</p>
5.	On financial resilience, the CIPFA report highlights the reliance on reserves to meet gaps in the council's budget and a culture of erosion of reserves which is no longer sustainable. It goes on to say "we would as a consequence consider the level of reserves is insufficient for future years. There should now be a concerted effort to replenish reserves in a planned programme".
6.	<p>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".</p> <p>"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".</p>
7.	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".
8.	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.
9.	<p>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:</p> <ul style="list-style-type: none"> <li>• The results show an overall mixed position for the council.</li> </ul>

	<ul style="list-style-type: none"> <li>• Enabling transformations scores less well – this is not uncommon for local authorities.</li> <li>• Overall the budget setting and monitoring process meets many of the best practice statements and questions.</li> <li>• Overall the council does have an effective framework of financial accountability and reporting in line with professional and statutory requirements.</li> <li>• 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.</li> <li>• The development of the financial strategy is improving with a longer-term outlook.</li> </ul> <p>The report goes on to identify areas for development.</p>
10.	Annexe 1.1 to the CIPFA review provides an update on the Council's Financial Procedure Rules (FPRs). This was also a part of the updated Medium Term Financial Strategy tabled at full council. Changes were proposed to keep these rules up to date and for consistency with the new financial strategy.

#### **RESOURCE IMPLICATIONS**

##### **Capital/Revenue**

11.	None
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##### **Property/Other**

12.	Not applicable
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#### **LEGAL IMPLICATIONS**

##### **Statutory power to undertake proposals in the report:**

13.	Section 111 Local Government Act 1972 and S1 Localism Act 2011. The CIPFA report will inform the financial strategy and the council's duty to balance its budget.
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##### **Other Legal Implications:**

14.	Not applicable
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#### **RISK MANAGEMENT IMPLICATIONS**

15.	The CIPFA review is intended to assist the council with financial risk management and our financial resilience.
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#### **POLICY FRAMEWORK IMPLICATIONS**

16.	Not applicable
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<b>KEY DECISION?</b>	<b>Yes/No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	<b>None</b>
<b><u>SUPPORTING DOCUMENTATION</u></b>	

<b>Appendices</b>	
1.	CIPFA review – draft report
2.	Annexe 1 to CIPFA report – Financial Procedure Rules update

**Documents In Members' Rooms**

1.	None
2.	

<b>Equality Impact Assessment</b>		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		Yes/No
<b>Privacy Impact Assessment</b>		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		Yes/No
<b>Other Background Documents</b>		
<b>Other Background documents available for inspection at:</b>		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.		
2.		