

Meeting: Cabinet
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Classification: Part 1
Key Decision: No
Title of Report: Council Budget Update

Executive Director: Finance & Resources
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Executive Councillor: Councillor Tony Cox – Leader and Cabinet member for Special Educational Needs and Disability

1. Executive Summary

- 1.1. This report brings forward a range of proposals for decision to help to address the financial challenges the Council is facing and to allow for sufficient time to develop and make the necessary detailed arrangements including appropriate consultation. Taking the decisions now will permit near full year delivery of service changes and consequent savings.
- 1.2. The severity of the financial challenges that have been reported across the Local Government sector and within Southend-on-Sea City Council has demanded a different response to the standard medium-term budget planning, financial management and engagement. It is essential that the Council does everything it can to continue to improve its operational efficiency, productivity and delivery of value for money services. However, given the current operating environment and the significant increases experienced in both service demand and unavoidable inflationary cost pressures, particularly within social care for our most vulnerable residents, achieving this ambition alone will not be enough to guarantee the future financial sustainability of the Council.
- 1.3. Southend-on-Sea City Council, like many local authorities right across the country is being forced to make some difficult choices on the level and range of our local service offer. It needs to take decisive action now to ensure the good local governance of financial and operational decision making and for the future of the City.

- 1.4. The Council has a statutory fiscal duty and core responsibility to set a balanced and robust budget each financial year and the next budget setting Council meeting is scheduled for February 2024. This report seeks decisions on a range of service redesigns and actions which, in turn, will act as catalysts for the budget development process and financial planning arrangements. Some of these proposals will require a significant re-configuration of service delivery arrangements. This re-design will take time to develop, consult and implement and it is critical that we get the new operating model right in order to best meet the needs of our residents and deliver our statutory responsibilities within the level of the resources we have available as a City Council. This revised approach is in recognition of the size and complexity of the challenge to determine the council's budget plans for 2024/25 and across the medium-term.
- 1.5. This report also summarises a range of activity that is already being implemented under delegated authority to the Chief Executive and his senior officer team.

2. Recommendations

It is recommended that Cabinet:

- 2.1. Notes the significant financial challenges facing the Council and agrees that immediate action is required in-year to mitigate the scale of current year overspending as well as plan for longer term, fundamental re-design of Council service delivery.**
- 2.2. Notes the work already in progress under existing delegations to the Chief Executive and senior officers.**
- 2.3. Agrees therefore to take the decisions outlined in Appendix 1 and delegates to the relevant Executive Director authority to take all necessary action to realise savings, income generation and cost avoidance measures related to those decisions.**
- 2.4. Agrees also to delegate authority to the relevant Executive Director, in consultation with (relevant Cabinet Member) to agree the consultation document for decisions in Appendix 1 subject to statutory consultation. The outcome of the consultation and resulting recommendations to be taken back to Cabinet for agreement.**
- 2.5. Agree that officers continue to develop the longer-term service re-design measures as set out in paragraph 6 and that Cabinet receive a future report on the projected impact of that service redesign on the Council's finances.**
- 2.6. Agrees that the Chief Executive, in consultation with the Leader, will develop a new design for service delivery based upon a localities model for approval by a future Cabinet.**

3. Background

- 3.1. Like most local authorities across the country, the Council's financial situation is challenging, and urgent action has and continues to be taken within the organisation to mitigate the scale of current year overspending. Our approach and response to the range of financial pressures that we continue to face was fully reported within the period 4 budget monitoring position, which was considered by Cabinet on 18 September 2023.
- 3.2. It is in the best interests of the Council for all Officers and Elected Members to work closely and collaboratively together at pace to control all areas of current identified overspending and to ensure that any adverse variances are brought back as close as possible to the approved budget for 2023/24. Without this collaborative action, these pressures will contribute to increasing the forecast budget gap for 2024/25 and the Council will have a statutory requirement to approve a balanced budget in February 2024.
- 3.3. Despite the tough economic climate and local circumstances, the Council still has its financial destiny and control in its own hands, if it can manage to reduce the forecast overspending significantly throughout the rest of the 2023/24 year and develop robust plans to deliver a balanced budget for 2024/25.
- 3.4. Urgent action is continuing to try to reduce all non-essential expenditure and/or generate extra income. This priority must be achieved whilst ensuring that our most vulnerable residents are looked after appropriately, and our statutory responsibilities are effectively discharged. Like other local authorities we also need to consider how we deliver our statutory responsibilities and if changes can be made. The same principles are being applied to the early development of ideas and proposals to deliver a balanced budget for 2024/25.
- 3.5. Improving efficiency and productivity is essential but the scale of the continuing unprecedented financial pressures will inevitably lead to a reduction in the range, quality, cost and responsiveness of other discretionary Council services as well as challenging our approach to the delivery of our statutory responsibilities.
- 3.6. To help to begin to address and close the estimated budget gap over the next five years the Council will continue to aim to achieve financial sustainability by growing local income sources and relying less on grant support from Central Government in the future. The Council will continue to work collaboratively with its partners, increase its focus on the delivery or joint commissioning of services in a targeted way to ensure that those in most need and who will receive the greatest benefit are the recipients of services. It is vital that we learn from our COVID-19 experience and tailor our services and working practices accordingly.

- 3.7. There is no question that the current national operating environment, particularly for upper tier local authorities has never been so financially challenging with numerous Councils announcing or giving warnings of financial distress. The issuing of a section 114 notice was once unheard of and whilst a lot more authorities are highlighting the possibility, it is still a major undertaking which has huge consequences for the local authority concerned. It is effectively a declaration that the organisation is forecasting that it cannot meet all its financial obligations.
- 3.8. The Department for Levelling Up Housing and Communities (DLUHC) now provide an option for local authorities in financial difficulties that are deemed to be unmanageable to apply for Exceptional Financial Support. In practice, this presents an intermediate step to avoid a section 114 scenario. This action inevitably results in an escalation of direct intervention by DLUHC in the Council's management, administration and decision-making.
- 3.9. The ultimate consequences of issuing a section 114 notice are serious and significant and would immediately result in the cessation of all but the most essential levels of expenditure and then only to meet the statutory minimum level of service and Council liabilities. There would also be the need to develop and deliver a comprehensive Council-wide financial recovery plan. This would need to be considered by a full Council meeting within 21 days of issuing the notice.
- 3.10. There is now widespread concern and risk to the continued delivery and level of public services in many local authority areas. The unprecedented levels of demand and huge increases in costs of maintaining statutory service provision, particularly for support and intervention for vulnerable children and adults has been at such a pace that discretionary universal services are continually being squeezed and are being forced to be reduced to ensure some local authorities remain financially viable.
- 3.11. Given this combination of factors and unheard-of levels of financial distress being raised right across the sector, local authority networks up and down the country are lobbying the Government hard for recognition of the scale of the underfunding problem and the impact on local areas. Authorities are requesting more transparency and a fairer longer term funding deal particularly in the more deprived areas of the country, which are suffering most from huge increases in both the complexity and cost of statutory service demand.
- 3.12. The fact that this scale of financial challenge is so widespread across the country is of little comfort currently though as all Councils, including Southend-on-Sea, wrestle with maintaining the delivery of their key statutory responsibility to operate in a financially sensible and sustainable way.

4. Council Revenue Budget Position 2023/24

- 4.1. In February 2023, the Council approved a General Fund Revenue Budget requirement for 2023/24 of **£143.875M**. At the Cabinet meeting on 18

September 2023, it was reported that the current projected outturn position, based on information as at the end of July 2023 (Period 4), was forecasting a net overspend by the year end of **£14.040M** for 2023/24, which was expected to remain at that level if no mitigations were implemented. Action has and will continue to be taken to further reduce this potential overspend. The total projected overspend at that time stood at around 4.0% of the Council's gross expenditure budget.

- 4.2. The updated position as the end of September 2023 (Period 6) is due to be reported to Cabinet on 20 November 2023. At this stage it is fully anticipated that the projected overspend by the year end will have reduced given the various corrective actions and mitigations undertaken by officers. Further sustained action will still be required until the end of the financial year and beyond.
- 4.3. Alongside the setting of the 2023/24 budget, the Council also approved the Medium-Term Financial Strategy which provided a financial forecast with an estimated budget gap of £29.8M by 2027/28. (2024/25 = £9.3m, 2025/26 = £9.5m, 2026/27 = £6.0m, 2027/28 = £5.0m).
- 4.4. Given the current level of overspending caused by persistent high levels of inflation and service demand pressures experienced so far in 2023/24 – the potential budget gap for future years is also likely to have got significantly larger. Some initial work has been done on re-casting the medium-term financial forecast and the intention is to provide a revised illustration of the potential impact on the Council's budget over the medium term until 2027/28 in the Period 6 financial performance update which is scheduled to be reported to the Cabinet meeting in November 2023.
- 4.5. The process of reviewing and implementing savings to reduce the Council's overspend has been formalised and a new robust approach has been introduced to drive in year savings, with a goal of returning to an approach of setting a realistic budget that balances in reality as well as on paper throughout the financial year. The range of actions are summarised below:
 - Workforce panel to review the recruitment and usage of permanent and agency staff.
 - Identification and deletion of underutilised budgets with no impact on resident service delivery.
 - Efficiency and productivity explored across all service budget areas.
 - Controlling demand management particularly across Adults and Childrens Social Care.
 - Capital challenge sessions – this year with cross party support and the results of the departmental sessions will appear in the Period 6 report with the full expectation of a vastly reduced capital investment programme.
 - Estate efficiencies and rationalisation of buildings work.
 - Reviewing the level of all subsidies to discretionary services.
 - Reviewing fees and charges.

- Service Plans for 2023/24 that clearly set out each service's approved budget, the savings & income generation initiatives it is responsible for delivering and the areas targeted for overspend reduction.
- Engagement of a transformation partner focussed on in year financial support but also twin tracking larger transformation reviews.
- Driving real value from contract management, procurement and commissioning activity.
- Budget challenge sessions with each Department led by the Chief Executive and Executive Director of Finance & Resources supported by external advice from Ernst Young. A second round of Budget Challenge sessions will be undertaken in November.
- The Chief Executive has recently communicated to staff a Voluntary Redundancy scheme which will take expressions of interest from staff in November and decisions made in December.
- The deletion of three vacant Director posts.
- The introduction of a departmental wide vacancy factor.
- A review of senior management below Director level to be undertaken by Executive Directors.
- Services to review the relevant Target Operating Model for their relevant delivery mechanisms.

With additional mitigations now deployed, up to a **£10M** reduction could be achieved by the end of 2023/24. The position will be kept under constant review considering the potential for further statutory demand and cost increases within social care.

5. Council Medium-Term Revenue Budget Status

- 5.1. It is important that proactive action and all aspects of the council arrangements are reviewed to try to reduce the projected overspend for 2023/24 further, some of these mitigations will also assist in reducing the cost base in 2024/25 and beyond. However, there is still much more to do given the current forecast budget gap across the next four years is circa £30m and increasing all the time with the cost and demand pressures being faced nationally and locally. Given this unprecedented set of circumstances, early work has started to develop a range of proposals that will support the reduction in our cost base and form an integral part of financial planning for the budget setting for 2024/25 and beyond.
- 5.2. Officers have looked at a range of proposals that require Member endorsement to enable them to proceed and allow further detailed service and financial examination along with meeting all relevant public consultation and engagement requirements. Attached at **Appendix 1** is an initial list of decisions that the Cabinet can take immediately to mitigate the current year financial challenges together with more significant decisions that require statutory consultation. This begins the process for developing a balanced budget for 2024/25 and contributes to the Council's financial sustainability in the Medium-Term. The decisions include proposals that will deliver savings or generate income or reduce forecast cost pressures on 2024/25 and 2025/26 budgets.

- 5.3. Given the financial challenges the Council faces, fundamental service redesign will be necessary. Paragraph 6 outlines the Council's internal service redesign that has commenced, additionally the Cabinet have instructed officers to begin work to explore services based on a localities model. The purpose of this is to ensure the fairest distribution of services across a locality within a reduced budget. Development of the localities model will come to a future Cabinet meeting and will inform the development of future service design.
- 5.4. Taking the decisions at this time will enable officers to undertake required consultations, service design and financial due diligence and risk assessment to finalise each proposal. They will then come forward as recommendations to Cabinet and Council as an integral part of the overall budget package for 2024/25.

6. Cross-cutting programme of work currently in development

- 6.1 Five specific cross-cutting opportunities have been identified that will have an impact across the organisation. These proposals will take longer to develop due to the complexity and multiple service involvement. The Council are using Ernst and Young under their existing contract to scope these opportunities and develop appropriate implementation plans to generate additional efficiencies and savings.

Opportunity	Overview
Estate Optimisation	Develop and implement a more strategic approach to estate management and rationalisation, underpinned by a locality model.
Front Door Demand Management	Establish an effective and resident focused front door to council services, that reduces duplication and manages demand.
Social Care Demand Management	Identify opportunities to manage demand for children's and adult's social care services, to reduce in-year costs where possible and contribute to cost avoidance in future years.
Procurement, Commissioning & Contract Management	Further develop opportunities to drive cost reduction through more robust and effective procurement, commissioning and cost reduction.
Shared Services	Explore the feasibility of a shared services model and determine services with the most potential for a shared service model.

7. Staffing Considerations/Implications

- 7.1 It is anticipated that there may be staffing implications as part of implementing these proposals. A significant part of managing the budget will result in planning for longer term efficiencies through service re-design. Management focus will therefore be looking to transform our operating model as set out in the report.
- 7.2 Council HR policies seek to minimise any compulsory redundancies with the resulting impact on service delivery. Our service changes are designed to look firstly for redeployment opportunities, deleting vacant posts, restricting recruitment, natural wastage / turnover and reducing or eliminating additional costs. Where there are staffing implications, the Council is seeking voluntary redundancies as appropriate to minimise compulsory redundancies.
- 7.3 The Council's workforce planning arrangements will continue to provide oversight on all proposed staffing changes and ensure that the approach will manage vacant posts (permanent and temporary), agency and interim arrangements to ensure that any staff identified at risk from any changes to proposed staffing restructures can be redeployed where appropriate.
- 7.4 The Council's policies on managing organisational change, redeployment and redundancy will be followed accordingly. Consultations with staff and Trade Unions will commence at the appropriate time and continue throughout the budget development and implementation process.

8. Reasons for Decisions

- 8.1 The key intention behind this report is to seek approval to start to formalise a comprehensive assessment of initiatives to begin to build a package of budget proposals transparently and as early as possible, given the current unprecedented operating and financial pressures. It will also help to inform the decision making needed to ensure the Council's medium term financial sustainability is maintained and robust budget setting for future years is achieved.
- 8.2 The challenge of delivering a balanced financial outturn for 2023/24 remains significant and some of these factors are contributing to increasing the scale of the financial challenge for 2024/25. The Council continues to try to reduce all non-essential expenditure and/or generate extra income. This priority must be achieved whilst ensuring that our most vulnerable residents are looked after appropriately, and our statutory responsibilities are effectively discharged. Improving efficiency and productivity is essential but the scale of the unprecedented financial pressures will inevitably lead to a reduction in the range, quality, cost and responsiveness of other discretionary Council services, as well as challenging our approach to statutory services. There is an urgent need to progress a set of service change proposals within the organisation as early as possible to support the delivery of a robust and balanced budget for 2024/25.

9. Other Options

- 9.1 The Council could choose not to progress with all or some of the proposals attached in Appendix 1, however, that would not be the recommended course of action at this stage given the significant financial challenges currently being faced by the Council.

10. Financial Implications

- 10.1 The financial implications of each proposal will be refined as part of the more in-depth review of each proposal and will form an integral part of the budget setting report for 2024/25. At this stage, the attached Appendix 1 identifies whether the proposal is a cost avoidance measure, a saving in the base budget or a reduction in service expenditure that is currently overspending. Where possible an indicative range of financial impact has been included but this will need further validation and formalised as part of the proposed programme of work.

11 Legal Implications

Purpose of these recommendations

- 11.1 The Council is under a legal duty to meet the requirements of Section 31A of the Local Government Finance Act 1992, which includes the obligation to produce a balanced budget by 11 March annually.
- 11.2 The budget forecast as set out in this, and previous Cabinet reports, indicates that the Council must take immediate and significant steps to meet its legal duty to achieve a balanced budget (by the start of the next financial year). The purpose of these recommendations is for Cabinet to agree those significant decisions needed now, to ensure Council does not fail in its duty to produce a balanced budget and does not expose the Council to risk of external intervention.

Role of Leader and Cabinet

- 11.3 In terms of the Council's executive arrangements, the adoption of the Council's Budget is a role shared between the Cabinet and the Council. The Leader, through his Cabinet, is responsible for formulating the budget proposals and making any in-year changes to meet the budget set by Council annually.
- 11.4 Under section 25, Local Government Act 2003, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance Officer as to the robustness of the estimates and the adequacy of financial reserves. It is prudential that the financial position continues to be closely monitored. In particular, the Leader, together with his

Cabinet, must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered, and that new expenditure is contained within the available resources. Accordingly, any proposals put forward by Cabinet must also identify realistic measures to produce those savings.

Requirement to report to Council

- 11.5 For the remainder of this year, the budget sets the upper limits of how the executive (Leader, Cabinet, or officer under delegated executive authority) may decide to spend the Council's resources. The Council cannot, through the budget, overrule an executive decision as to how to spend money, but a decision that leads to excess expenditure, a virement from one budget heading to another over the amount allowed by Council, or expenditure of unexpected new money outside the budget is required to have approval of the Council before the Leader and the Cabinet can make that decision.
- 11.6 This report sets out those decisions that are within the remit of the Leader and Cabinet to make in-year and are those designed to recommend a balanced budget to Council.

Those decisions have the following specific legal implications:

A duty to consult

- 11.7 Appendix 1 outlines those decisions which the Cabinet can take immediately and those which require consultation prior to making a final decision.
- 11.8 Where a statutory duty to consult exists, the Cabinet has decided to begin consultation now to enable it to propose potential savings at, or prior to, the budget meeting in 2024.
- 11.9 Statutory consultation must meet certain rules to ensure decisions are fair and made with appropriate consideration of all relevant issues. These rules are that:
- Consultation must be at a time when proposals are still at a formative stage;
 - The Council must give sufficient reasons for any proposal to permit intelligent consideration and response;
 - Adequate time must be given for consideration and response; and
 - The responses to the consultation must be conscientiously considered in finalising any statutory proposals.
- 11.10 These rules will therefore require a further report to Cabinet on conclusion of the consultation which outlines the implications of making changes to service delivery. Therefore some decisions are dependent upon that consultation process beginning now in order to assess whether savings targets are achievable by 2024/25 and beyond.

- 11.11 It should always be noted that the demands of fairness are likely to be somewhat higher when an authority contemplates depriving someone of an existing benefit or advantage. For that reason an equality impact assessment may also be required.

Equality Impact Assessments

- 11.12 The Council has a duty to consider its public sector equality duty when making decisions regarding changes to the provision of its services.
- 11.13 All budget proposals subject to consultation will require the Council to carry out an assessment of the impact of its decision on the community, particularly where those decisions affect people with protected characteristics. The impact of a decision must be kept under review during the consultation and will be reported to the Cabinet, together with the consultation outcome, prior to any decision being made regarding changes to the service.
- 11.14 Where Cabinet make in-year decisions they are also required to consider the public sector equality duty (PSED) before that decision is made, if that decision is likely to have an equality impact. An equality impact assessment has been undertaken as part of this process. Government has indicated that "local councils should be able to use their judgment to pay due regard to equality without resorting to time consuming, bureaucratic, tick-box exercises at the end of the decision-making process." The assessments are therefore proportionate to the decision being made.

Other statutory duties

- 11.15 No legal implications are set out in this report in relation to Exceptional Financial Support or section 114 Local Government Finance Act 1988 as this report demonstrates that the Council is acting prudentially by taking action to mitigate the current year overspending. Should these mitigating actions not prove effective, a further report must come to Cabinet regarding those options.

12 Policy Context

- 12.1 The proposals will mean a review of relevant policy areas and this will form part of the budget setting programme for 2024/25 and where required appropriate policies will need to be amended accordingly if the proposal is approved.

13 Carbon Impact

- 13.1 Each proposal will have the carbon impact assessed as part of the next stage on reviewing each of the proposals in more detail.

14 Equalities

- 14.1 Each proposal will have a comprehensive equality impact assessment undertaken as part of the development of the budget for 2024/25.

15 Consultation

- 15.1 Within Appendix 1, it is identified which proposals requires a public consultation. If Members approve the proposals contained in this report this will mean that the relevant service will then undertake the necessary public consultation to enable the position to be confirmed in advance or part of the budget setting for 2024/25. The Legal implications relating to consultation are set out in paragraph 11.

16 Appendices

- 16.1 **Appendix 1**: Executive Decision Savings Proposals