	REVENUE OUTTURN 2019/20
	The focus for this report is on indicating the changes since the financial monitoring position reported to Cabinet at its meeting on 25 February 2020 (at quarter 3).
	GENERAL FUND REVENUE ACCOUNT - SUMMARY
1.	Each portfolio within the General Fund is responsible for monitoring net controllable spend against the budget throughout the financial year. There is a surplus on the General Fund, with a favourable variance of £5.17M compared with the balanced position forecast at quarter 3. This surplus was transferred to reserves, improving the sums potentially available in the future, to provide an overall balanced position for the year on the General Fund. The movements to the position reported at quarter 3 are summarised in Table 1 below (note: figures in all tables will be rounded).

Table 1 – General Fund Revenue Account 2019/20

	Final Budget £M	Outturn £M	Outturn Variance £M	Forecast Variance Qtr 3 £M	Variance Movement from Qtr 3 £M
Portfolios Net Expenditure	180.50	185.65	5.15 A	4.10 A	1.05 A
Non-Portfolio Net Expenditure	9.17	(0.01)	9.18 F	4.10 F	5.08 F
Net Revenue Expenditure	**189.67**	**185.64**	**4.03 F**	**0.00**	**4.03 F**
Financing	(189.67)	(190.81)	1.14 F	0.00	1.14 F
Transfer to Reserves – Year End Surplus		5.17	5.17 A	0.00	5.17 A
(Surplus) / Deficit for the year	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

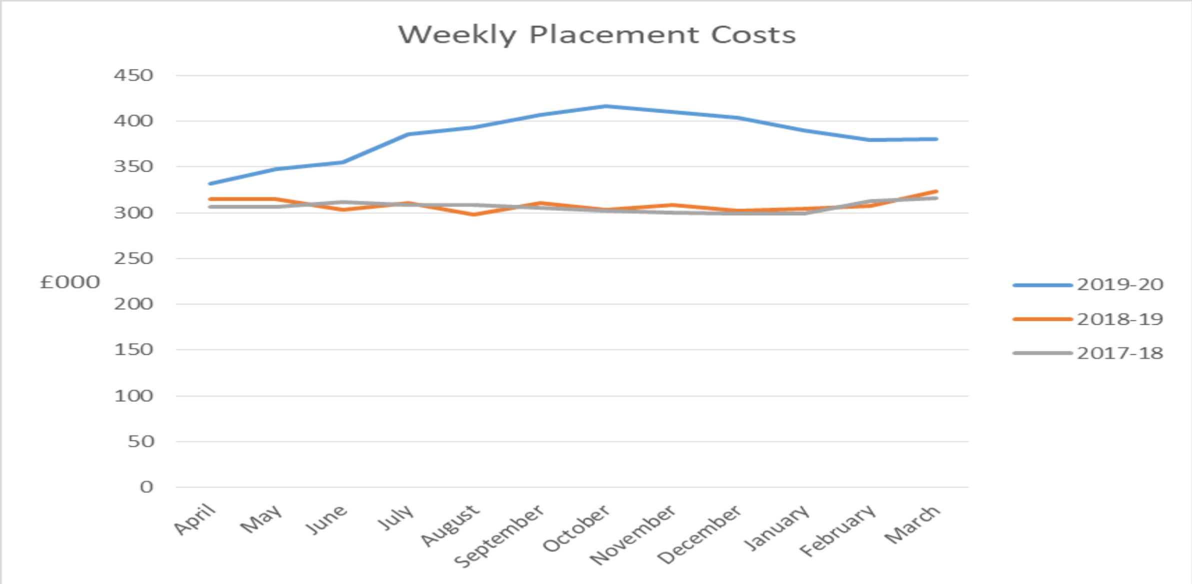
NB Numbers are rounded

2.	More detail, including explanations of significant movements in variances between quarter 3 and outturn (in excess of £0.2M) is provided in Annex 1.1.
3.	Portfolio expenditure includes £0.53M costs attributable to the COVID-19 pandemic and this has been funded using part of the £7.40M Emergency Funding Grant received in late March 2020, with the remainder being carried forward into 2020/21. These costs arose very late in-year with the national ‘lock down’ starting on 23 March.
4.	£6.05M of the Portfolios outturn variance relates to Aspiration, Children & Lifelong Learning. The Council has experienced a challenging year with Children’s Social Care and this is part of a national pattern experience by many councils. Locally the contributing factors are: • increased demand throughout the service and the need for additional agency staff to deal with high caseloads and managing areas of service highlighted in the OFSTED inspection,

- high levels of high cost residential and independent fostering agency cases.

Chart 1 below shows that weekly placement costs were running at a consistently higher level in 2019/20 than compared with the previous two years.

Chart 1 – Weekly Placement Costs



<u>Budget Carry Forwards</u>

5. A number of service areas have requested the carry forward of budgets from 2019/20. Those recommended to Council for approval are summarised in Annex 1.2 and total £2.36M. It is expected that this spend will be incurred in 2020/21.

<u>Business Rates Retention Scheme Pilot</u>

6. In 2019/20 Southampton City Council participated in a 75% business rate retention scheme pilot working alongside Portsmouth City Council and the Isle of Wight Council as part of the Solent Region pilot area. This follows on from the 100% pilot that operated in 2018/19. The pilot meant that 75% of business rate growth was retained within the area, rather than the usual 50%. The Government did not allow pilot schemes to continue into 2020/21, so the pooling arrangement ceased on 31st March 2020. Southampton's share of the gain arising from participating in the pilot in 2019/20 was £1.81M and in addition the Council's share of funds retained by the pool over the 2 years of its operation was £3.57M. £5.04M of this benefit was already anticipated in budget planning for 2020/21 and 2021/22.

<u>Property Investment Fund</u>

7. As part of the scheme of delegation it was agreed the performance of the Property Investment Fund would be reported at outturn stage to Full Council. Annex 1.3 gives the details of this fund and Cabinet is asked to recommend Council note the performance.

8. There have been no additional purchases during the year. The rate of return on investment in 2019/20 before borrowing costs and other on-costs was 6.04%. Borrowing costs of 3.90% were incurred giving a net rate of return of 2.14%. All of the

properties remain fully let and the tenants are meeting their financial obligations under the leases.

9. Investment properties have to be revalued every year. The current valuation for those within the Property Investment Fund is £25.49M, a decrease from last year of £2.81M compared with a gain of £0.41M in 2018/19.

Treasury Management

10. The Treasury Management outturn for 2019/20 will be reported to Governance Committee on 27 July 2020.

Dedicated Schools Grant (DSG) and Schools

11. The Dedicated Schools Grant is a ring-fenced grant and balances are carried forward each year. The position at year end is a deficit of £7.42M, as shown in Table 2 below. This is further detailed in Annex 1.1.

Table 2 – DSG Outturn

	£M
Carry forward from 2018/19	0.36
Net deficit in year	7.06
Balance to carry forward	**7.42**

12. The DSG deficit has increased principally as a result of continuing increases in the high levels of demand for High Needs exacerbated by the increasing levels of complexity for the level of support required. The DSG deficit represents 3.9% of total DSG. A 3 year deficit recovery plan will be provided in 2020/21 to recover the deficit. This deficit is contained within the ring-fenced Dedicated Schools Grant funding. It will not impact on the wider council services or council tax payers.

13. There are 14 schools reporting a deficit balance as at the 31 March 2020 as shown in Table 3 below. This is 1 more than the position at the previous year end and the total deficit has increased by £0.86M.

Table 3 – Schools in Deficit

	2018/19		2019/20	
	Deficit £M	No. of Schools	Deficit £M	No. of Schools
Primary	1.84	8	2.09	9
Secondary	1.93	5	2.54	5
Total	**3.77**	**13**	**4.63**	**14**

14. These schools are working with the Children's Finance team to agree deficit recovery plans. Additional resources are being provided in 2020/21 to work with the schools to provide assistance with their preparation and implementation of deficit recovery plans.

<u>Reserves & Balances</u>

15. The General Fund balance stands at £10.07M, which is the approved minimum level as per the February 2020 Medium Term Financial Strategy (MTFS).

16. Earmarked reserves totalled £87.76M at the end of 2019/20, of which £1.56M related to schools' balances. This compares to a forecast of £67.34M at quarter 3, including forecast nil balances for schools. Included within reserves is a carry forward of £6.87M of COVID-19 Emergency Funding received at the end of March 2020 and a negative reserve of £7.42M relating to the carry forward of the DSG overspend. Further details and the changes to the quarter 3 position are set out in Annex 1.4. The main changes to the quarter 3 position were:

- £8.63M improvement in the Medium Term Financial Risk Reserve arising from the contribution of the year-end surplus, reduced drawdown towards project costs in year and increased return from the Solent Pool;
- £9.52M transfer to the Revenue Grants Reserve for grants being carried forward into 2020/21 (there is a separate reserve for Public Health Grant);
- £2.36M increase in the Portfolio Carry Forwards Reserve for the budget carry forwards noted in paragraph 5;
- £2.26M reduced drawdown of the Revenue Contributions to Capital Reserve following review of the financing of the capital spend for the year in order to maximise flexibility of resources;
- £1.87M reduced drawdown of the Digital Strategy Reserve for the same reason as above;
- Transfer of the £7.42M DSG overspend to a new reserve in line with Government regulations;
- The £1.46M improvement on other reserves includes £0.88M transfer to the Public Health Reserve and £0.51M reduced drawdown of City Deal funding.

17 Given continued uncertainty and volatility of public funding and the impact of COVID-19 on the Council's expenditure and major income streams, it is more important than ever that the Council holds adequate reserves.

HOUSING REVENUE ACCOUNT

18. The HRA has broken even in 2019/20 as summarised in Table 4 below. The HRA variance has moved adversely by £1.89M from the position forecast at quarter 3. Further details are provided in Annex 1.5.

Table 4 – Housing Revenue Account Outturn 2019/20

	Final Budget £M	Outturn £M	Outturn Variance £M	Forecast Variance Qtr 3 £M	Variance Movement from Qtr 3 £M
Expenditure	74.24	74.01	0.23 F	1.74 F	1.51 A
Income	74.24	74.01	0.23 A	0.15 F	0.39 A
(Surplus) / Deficit for the year	**0.00**	**0.00**	**0.00**	**1.89 F**	**1.89 A**

19. The most significant movement from quarter 3 relates to responsive repairs (£1.52M adverse), which has finished closer to the previous year's outturn than the budget.

	Overall there was a larger than budgeted surplus on the HRA and this was used to increase revenue financing of capital expenditure and reduce debt, while maintaining HRA balances at the minimum level of £2M approved by Council in February 2012.
	COLLECTION FUND
20.	The outturn for the Collection Fund is an overall deficit of £1.95M, as shown in Annex 1.6 and summarised in Table 5. The table shows a comparison of the outturn position with the revised estimate at quarter 3. The Southampton share of the estimated surplus at quarter 3 was taken into account in setting the 2020/21 General Fund Revenue Budget in February.

Table 5 – Collection Fund Deficit/(Surplus) Carried Forward

	Outturn £M	Quarter 3 Revised Estimate £M	Variance Adverse/ (Favourable) £M	SCC share of variance* £M
Council Tax	2.63	0.29	2.33	1.98
NDR	(0.68)	(0.50)	(0.18)	(0.13)
Total	**1.95**	**(0.21)**	**2.16**	**1.85**

*NOTE: SCC has a 85% share of the additional Council Tax deficit and a 74% share of the additional NNDR surplus

21.	The adverse movement in quarter 4 for Council Tax is primarily due to a larger increase in the provision for bad debts than previously estimated, with higher level of arrears than assumed emerging plus factoring in a worsening economic climate on collection rates. The overall picture is a loss of £2.16M at the year-end (to be shared between Southampton, MHCLG, Hampshire Police and Hampshire Fire and Rescue Authority), compared with current planning assumptions. This will be taken into account when updating the Medium Term Financial Strategy.
	LOOKING AHEAD
22.	The financial challenges facing the Council will continue into 2020/21 and increase with the Covid-19 outbreak. The extent of the actual financial impact of Covid-19 will not become clear until government implements in full its phased reduction of lockdown measures and any longer lasting economic and service demand effects are known. The council entered 2020/21 with a resilient budget and an improved position with respect to its reserves, but we now face unprecedented times with the Covid outbreak which escalated into the national lock down from late March 2020. The council faces challenges arising from the demand for services evident in the spending pressures reported here, almost all of which it is obligated to provide, for example in the areas of Children's and Adults Social Care where costs can often be high. We also know that based on the Medium Term Financial Strategy work reported in February at Council, the council already faced a budget challenge of a £10.2M shortfall by 2022/23.
23.	The authority will not lose sight of the importance of continuing to provide services to all our residents during difficult times, offering the extra help needed to those especially vulnerable under the current climate and investing to assist the recovery phase. However, it is also vital that service costs are maintained within the funding available. Reviewing and re-assessing our priorities and what can be achieved with the funding we have will become increasingly important during 2020/21.

Annexes

1. General Fund Revenue Account Outturn 2019/20
2. Budget Carry Forwards
3. Property Investment Fund
4. Earmarked Reserves
5. Housing Revenue Account Outturn 2019/20
6. Collection Fund Outturn 2019/20