

REVENUE FINANCIAL MONITORING FOR THE PERIOD TO JULY 2020

FINANCIAL POSITION

1. The current forecast spending against the Council's net General Fund revenue budget on business as usual (BAU) activities for the year is projected to be a £1.46M overspend. In addition there are net pressures arising from the COVID-19 pandemic of £28.83M. The report has updated the usual financial estimates from quarter 1 (end of June) to end of July (period 4) to coincide with information submitted at the end of July on a return required by Government on COVID-19 costs.

This overall financial position is summarised in Table 1 below.

Table 1 – General Revenue Fund Forecast 2020/21

	Budget July 2020	BAU Annual Forecast as at July 2020	BAU Forecast Variance July 2020	COVID-19 Forecast Pressures July 2020
	£M	£M	£M	£M
Portfolios Net Expenditure	171.27	176.52	5.25 A	44.96 A
Non-Portfolio Net Expenditure	19.55	15.76	3.78 F	16.14 F
Net Revenue Expenditure	190.82	192.28	1.46 A	28.83 A
Financing	(190.82)	(190.82)	0.00	0.00
(Surplus) / Deficit for the year	0.00	1.46	1.46 A	28.83 A

NB Numbers are rounded

2. More detail, including explanations of significant variances as at July 2020 (in excess of £0.2M) is provided in Annex 1.1, which separates out 'business as usual from COVID related.

'Business as Usual' and Budget 2020/21

3. The most significant adverse variance on business as usual activities is in the Children & Learning portfolio, which is forecast to overspend by £4.16M. Most of this relates to Looked After Children Provision, due to the higher number of children in residential care and independent fostering agencies than budgeted.
- As part of the Medium Term Financial Strategy agreed by Council in February 2020, a £6.0M extra contribution was made to the Social Care Demand Risk Reserve, taking it to £7.0M in total, to be called upon if necessary to meet Social Care pressures. If this reserve funding is used, in part, to meet the £4.16M of pressures in Children & Learning, this overall position for the General Fund revenue budget would be a **£2.70M underspend**, and this is the recommended course of action. It will still leave a balance of around £2.84M in the reserve to cater for any new social care budget pressures.

	COVID-19 and General Fund Budget 2020/21
4	The financial impact of COVID-19 has been closely tracked since the crisis began. The intelligence gathered has been used to inform monthly returns that have been required by Government. The figures are in line with the return made at the end of July, though the picture continues to change.
5	The Council's response to the crisis has been informed by the statement made at the outset by the Cabinet Minister, Robert Jenrick, that "the government stands ready to do whatever is necessary to support councils in their response to coronavirus". The council has therefore played a leading role in responding to the crisis across the district, working alongside partners to manage the response of local services and support residents during the lockdown and afterwards. This has inevitably led to high levels of additional costs to the Council that could not have been anticipated when the 2020/21 budget was set, and not all of which have (so far) been met through additional government support.
6	<p>General funding from Government so far has been in 3 Tranches, as follows:</p> <ul style="list-style-type: none"> • £1.6BN nationally announced at the outset of the crisis in March, with the SCC share being £7.4M (tranche 1) • Another £1.6BN nationally in April, with SCC share being £7.0M (tranche 2) • A further £0.5BN nationally announced in July with the SCC share being £2.5M (tranche 3) <p>Each of the tranches announced has applied a different mechanism to calculate grant entitlement, with Government in effect steering a greater or lesser share to different authorities and classes of authority. The total share to SCC has been £16.9M, of which around £0.5M was used in 2019/20 leaving £16.4M to offset costs incurred in the current financial year.</p>
7	<p>Correspondence from Government relating to the three tranches of general grant support announced so far stated that funding would support:</p> <ul style="list-style-type: none"> • Meeting the increased demand for adult social care and enable councils to provide additional support to social care providers. • Meeting the extra demand and higher business as usual costs of providing children's social care. • Providing additional support for the homeless and rough sleepers. • Providing support to those at higher risk of severe illness from COVID-19 • Meeting the demand pressures from other services.
8	Furthermore, Government has undertaken to underwrite an element of income permanently lost from sales fees and charges in 2020/21. This is only a proportion, some losses will remain with the authority, and for losses of income in other areas (such as commercial rents) the Government has been clear it will provide zero funding assistance. A calculation and submission to Government for this compensation will be made during September.
9	<p>As identified in table 1 above, the impact of COVID in 2020/21 is forecast at around £45M, which after applying the balance of the Government grant support available reduces to £28.8M. The impact has been felt not only in terms of additional (unbudgeted expenditure), but also a loss of revenue as services were temporarily closed/curtailed such as car parks, museums and the Itchen bridge toll. The agreed budget savings programme for 2020/21 has also inevitably stalled due to the priority COVID-19 has necessarily been given.</p> <p>Of the £28.8M in year-budget pressure arising from COVID-19, per table 1, a cautious estimate of £4.1M has been made for the loss of income compensation to be claimed, and there is a</p>

	<p>further £10.9M of costs directly attributable to the areas specified in paragraph 7 where Government support could still be forthcoming. Assuming this additional funding is realised it would lower the net budget pressure from £28.8M to £13.8M needed in year. It is proposed to address this pressure in the following way:</p> <ul style="list-style-type: none"> • £9.6M will be applied from the contingency and risk budgets held corporately (outside of the portfolio areas). • £1.5M of in-year savings will be found from a combination of measures including more stringent management of staff related expenditure in relation to use of temporary and short term contract staff plus vacancy management. There will also be a budget saving from the corporate budget for capital financing, arising from some proposals occurring less quickly than original expected. Whilst there are no decisions to halt any work in the capital programme, a more detailed examination of the impact of COVID and the capital programme will be brought forward for consideration as part of the 2021/22 budget work. • £2.7M arising from the period 4 underspend as detailed in paragraph 3 above can also be applied. <p>The total measures above amount to £13.8M therefore eliminating the forecast budget pressure as at period 4 (end of July), though much will depend on further Government support without which an additional shortfall is almost unavoidable.</p>
10	The estimated forecast of a net £28.8M extra costs does not take into account the severe impact that COVID is having upon Council Tax and Business Rates income to the Council, which is outlined in paragraphs 29 to 34 below. The way any loss of funding for these areas is accounted for, via the Collection Fund, would produce an adverse impact in 2021/22 onwards rather than the current financial year, increasing any future budget shortfall.
11	More information around the impact of COVID-19 on the Council's finances in 2020/21 and the proposals for how this is dealt with are the subject of Appendix 3 of this report.
	<u>Implementation of General Fund Savings Proposals</u>
12	Of the £11.84M savings plans included within the 2020/21 budget £4.87M have been achieved or are on track to be achieved before the end of this financial year. £6.07M of the remaining £6.97M have not been progressed because of the COVID-19 pandemic, and are included within the COVID-19 forecast pressures reported in Table 1 above.
	<u>Treasury Management</u>
13	The Treasury Management monitoring information is as at quarter 1 2020/21. Borrowing and investment balances as at 30 June 2020 and forecasts for the year-end are set out in Annex 1.2. After taking into account maturing and new debt requirements in year and a reduction in investment balances, there is an estimated increase in net borrowing of £273.85M for 2020/21.
14	As a result of the current economic uncertainty, the benchmark gilt rates for PWLB loans remain at historic lows, however following the government's announcement on 9 October 2019 that the margin on loans has increased from 0.8% to 1.8% this is now relatively expensive, and market alternatives will be considered. In his March 2020 Budget the Chancellor announced a reduction in the margin on new HRA loans to 0.8%, which represents a discount of 1% below the usual PWLB borrowing rate.
15	The initial reaction to the COVID crisis in March meant that short term liquidity became difficult and Government sought to assist cash flow by providing up front funding as far as possible. As a result year end investment balances were higher than expected and have remained so during the first quarter of 2020/21 but are expected to fall throughout the year.

16	The Council will continue to monitor the financial markets closely in light of uncertainties over the impact of the COVID-19 pandemic and the ending of the transition period for the UK's exit from the EU, and will keep its treasury management strategy under review.
17	Annex 1.2 includes an overview of current performance along with an update on the financial outlook. The Council approved a number of indicators at its meeting in February 2020. The Council has operated within the agreed prudential indicators for the first 3 months of the year and is forecast to do so for the remainder of the year.
	<u>Reserves & Balances</u>
18	The General Fund Balance is currently £10.07M with no planned drawdown during the year.
19	At the 31 March 2020, earmarked revenue reserves totalled £86.20M, plus Schools Balances totalling £1.57M. The estimated forecast position as at the 31 March 2021 is £58.04M plus Schools Balances forecast to be £0.69M. Using the Social Care Demand Risk Reserve to meet the business as usual pressures in Children & Learning would reduce the non-school reserves to £53.88M i.e. £4.16M of funds would be applied from reserves to neutralise the overspend forecast for Children & Learning.
	<u>Key Financial Risks</u>
20	The Council maintains a financial risk register which details the key financial risks that face the Council at a given point in time. It is from this register that the level of balances and reserves is determined when the budget is set at the February Council meeting. The register has been reviewed and is attached as Annex 1.3.
	<u>Schools</u>
21	As at 31 July 2020 there were 13 schools reporting a deficit balance totalling £4.72M. This is one school less than the position reported at 31 March 2020. There are also 34 schools reporting a surplus totalling £5.41M. The net position is therefore an overall surplus of £0.69M. Schools with deficit budgets continue to be supported by the Education Finance Team to develop Deficit Recovery Plans (DRP) and additional resources have been made available in 2020/21 to provide this support. There are 3 schools scheduled to transfer to academy status in 2020/21, one of these is voluntary and the other two are compulsory. The two schools being compulsorily converted to academies have a combined deficit position forecast of between £1.0M - £1.2M for which the Council will need to provide for under legislation. The transfers to academy status are currently scheduled to take place in January 2021. These schools are working with the Finance Team to find in-year savings to reduce these forecast deficits prior to conversion.
22	<p>The Forecast outturn for the Dedicated Schools Grant (DSG) is an £8.87M overspend. This area is ring-fenced and the overspend will not impact on the General Fund and the non-school services the council provides.</p> <p>This overspend is being driven by significant year on year increases in Education Health Care Plans (EHCPs) and increasing numbers of expensive out of city placements in independent school settings. A working party has commenced a strategic review of High Needs activity to mitigate pressures. The variance includes a cumulative DSG overspend of £7.42M brought forward from the previous year. Pressures on the High Needs services is a nationally recognised issue with significant pressures reported in most local authorities. The 17% increase in High Needs funding in 2020/21 has mitigated some of the pressure being experienced but further work is needed to reduce costs where possible.</p> <p>£0.52M of the adverse DSG variance is as a consequence of COVID-19, mostly due to loss of parent income at the Hardmoor maintained nursery setting (£0.30M) and loss of income through cancellation of training courses and room lettings (£0.22M).</p>

	COVID-19 and Dedicated Schools Grant (DSG) Budget 2020/21
23	<p>The Department for Education (DFE) have confirmed that schools will continue to receive their core funding allocations for 2020/21, regardless of any periods of any partial or complete closure due to COVID-19. The DFE have provided additional funding to schools to cover additional costs as a result of COVID-19. The funding is focused on specific items: Increased premises costs associated with keeping schools open during school holiday periods, support for free school meals where these costs are not covered by the national voucher scheme and additional cleaning costs required due to suspected or confirmed COVID-19 cases. The additional funding does not however cover the costs of loss of self-generated income which the DFE recognise will put some schools budgets under pressure.</p> <p>Schools have been required to submit claims for their approved additional costs directly to the DFE up to eligible limits depending on the number of pupils at their school. The funding is to cover only the period March to July 2020. While we do not know how long the current situation will continue, future funding beyond July 2020 has not yet been announced. So far 11 schools have had their claims approved totalling around £71,000 for the period March to July 2020. The DFE are currently assessing other claims submitted and will issue the outcome in due course. It is expected that schools will experience a variety of additional pressures to ensure the safe running of their establishments which are not covered by the additional funding and that whilst schools will be expected to, as far as possible, manage these within existing budgets there will be cost pressures affecting budgets for many schools.</p>
	<u>Financial Health Indicators</u>
24	<p>In order to make an overall assessment of the financial performance of the authority it is necessary to look beyond pure financial monitoring and take account of the progress against defined indicators of financial health. Annex 1.4 outlines the performance as at quarter 1 2020/21, and in some cases the forecast, against a range of financial indicators which will help to highlight any potential areas of concern where further action may be required.</p>
25	<p>Targets for income collection, creditor payments and tax collection rates are being assessed in light of the COVID-19 pandemic and have not yet been included.</p>
	<u>Housing Revenue Account</u>
26	<p>The forecast position for the Housing Revenue Account on business as usual (BAU) activities for the year is projected to be a £0.54M under spend as summarised in Table 2 below. In addition there are net pressures arising from the COVID-19 pandemic of £1.29M.</p>

Table 2 – Housing Revenue Account Forecast 2020/21

	Budget July 2020	BAU Annual Forecast as at July 2020	BAU Forecast Variance July 2020	COVID-19 Forecast Pressures July 2020
	£M	£M	£M	£M
Expenditure	75.60	75.12	0.48 F	1.25 A
Income	(75.60)	(75.66)	0.06 F	0.04 A
(Surplus) / Deficit for the year	0.00	(0.54)	0.54 F	1.29 A

NB Numbers are rounded

27 The most significant favourable variance to budget on business as usual activities relates to Housing Investment (£0.40M). Further details are provided in Annex 1.5.

COVID-19 and Housing Revenue Account (HRA) Budget 2020/21

28 COVID is expected to have an impact on both income collection and service delivery for the Housing Revenue Account. Increased financial hardship for tenants is expected to lead to an increase in rent arrears, and the potential for a material number of tenants migrating onto Universal Credit due to the impact on the wider economy.

There is also the effect of the lockdown during the first part of the financial year, and the ongoing social distancing guidance which has had, and will continue to have over the coming months, an impact on the ability to deliver the capital programme and planned maintenance works within the existing approved 2020/21 budget. This delay could lead to a further backlog of works in the coming financial year(s), with the potential for increased costs due to dilapidations in the interim. This is also likely to put pressure on the reactive maintenance budget over this period as emergency works on dwellings will still be required.

Collection Fund (covering business rates and council tax collection)

29 Annex 1.6 shows the forecast outturn position for the Collection Fund at July 2020, with the position summarised in Table 3. The Collection Fund operates on behalf of not only Southampton City Council (SCC) but also Hampshire Police and Hampshire Fire and Rescue Authority as they also receive a share of the proceeds of these income streams. The net impact for SCC alone is shown in the final line of table 3.

Table 3 – Collection Fund Forecast 2020/21

	Council Tax £M	NDR £M	Total £M
Distribution of previous years' estimated Surplus/(Deficit)	(0.30)	0.51	0.21
Other income and expenditure	1.12	50.07	51.19
Deficit for the year	0.82	50.58	51.40
Deficit/(Surplus) brought forward from 2019/20	2.63	(0.68)	1.95
Overall Deficit/(Surplus) Carried Forward	3.45	49.90	53.35
SCC Share of Deficit/(Surplus)	2.92	24.41	27.33
LESS: SCC - additional Grant from Government to fund rates reliefs		(24.55)	(24.55)
SCC Net Share of Deficit/(Surplus) after additional Grant	2.92	(0.14)	2.78

NB Numbers are rounded

- 30 The table shows the net impact for SCC only as a forecast £2.78M deficit, once additional grant allocations from Government are factored in. This is based on bills raised for 2020/21 as at the end of July 2020. The biggest factor in this forecast arises from a reduction in council tax income from tax payers, due to factors such as an increase in local council tax support scheme claimants. This is met, in part, by Government Hardship Fund grant.
- 31 There is, however, a high level of uncertainty about the impact of COVID-19 on the Collection Fund as the forecast will reflect underlying economic factors expected for the year, many of which are still to be apparent. The position is expected to worsen significantly during the year as the anticipated economic downturn takes effect. The number of local council tax support scheme claimants is expected to increase as and when unemployment levels rise. Rate relief on empty property is also likely to rise if businesses are forced to close. For both council tax and business rates budgeted growth may not be achieved due to inactivity during the lockdown period and a slowdown in the economy. The SCC share of the deficit could increase by a range of £5M to £8M, if these effects start to fully materialise, though there is considerable uncertainty as yet. As a high risk, this area will be carefully monitored as the economic effects of COVID-19 become clear and re-estimated, refined and updated. It will also be a key area to monitor and refresh as part of the Medium Term Financial Strategy work, underpinning future budget setting.
- 32 The Collection Fund must track all council tax and business rate income, even though the Southampton share is only one part of this. The overall position for the Collection Fund in total is a deficit to be carried forward of £53.35M before extra Government grant.
- 33 For Non-Domestic Rates the vast majority of the total Collection Fund deficit relates to the Government's expansion of the retail discount scheme (to 100% relief for the retail, leisure and hospitality sectors) and introduction of the nursery discount scheme in response to COVID-19, a total of £50.04M additional relief compared to the original estimate. These additional reliefs are being funded by Government grant (known as S31 grant).
A lower contribution to the appeals provision than budgeted has been forecast for 2020/21 to reflect the large reduction in net rates payable following the award of the additional reliefs.
- 34 The Government is considering extended the period over which collection fund deficits have to be recovered from one year to three years. This provides some breathing space, although it

	does not in itself provide any additional funding. We await details on this proposal from Government.
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Annexes

1. General Revenue Fund Forecast July 2020
2. Treasury Management Qtr 1 2020/21
3. Key Financial Risk Register July 2020
4. Health Indicators Qtr 1 2020/21
5. HRA Forecast July 2020
6. Collection Fund Forecast July 2020