

REVENUE OUTTURN 2020/21

The focus for this report is on indicating the changes since the financial monitoring position reported to Cabinet at its meeting on 23 February 2021 (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. For 2020/21, exceptional variances arising from the COVID-19 pandemic have been monitored and reported on separately to 'business as usual' (BAU) activities. Table 1 below provides a summary of the overall outturn for the year, with an analysis of BAU variances and COVID-19 pressures and movements against the quarter 3 position shown in Tables 2 and 3.
2. The overall outturn for the General Fund Revenue Account was a surplus of £8.63M. This surplus has been transferred to reserves, improving the sums potentially available in the future, to provide an overall balanced position for the year on the General Fund.

Table 1 – General Fund Revenue Account 2020/21

	Final Budget £M	Outturn £M	Outturn Variance £M
Portfolios Net Expenditure	178.29	211.69	33.41 A
Non-Portfolio Net Expenditure	12.91	(5.74)	18.65 F
Net Revenue Expenditure	191.19	205.95	14.76 A
Financing	(191.19)	(214.58)	23.38 F
(Surplus) / Deficit for the year before transfer to reserves	0.00	(8.63)	8.63 F
Transfer to Reserves – Year End Surplus		8.63	8.63 A
(Surplus) / Deficit for the year	0.00	0.00	0.00

Numbers are rounded

3. The outturn position for the General Fund on business as usual (BAU) activities for the year (before the final transfer to reserves) is a favourable variance of £7.56M, a favourable movement of £2.94M from the position forecast at quarter 3. Details of the significant movements since quarter 3 (in excess of £0.2M) are provided in Annex 1.1.

Table 2 – General Fund Business as Usual Outturn 2020/21

General Fund	BAU Outturn Variance £M	BAU Forecast Variance Qtr 3 £M	BAU Movement from Qtr 3 £M
Portfolios Net Expenditure	5.12 A	5.45 A	0.31 F
Non-Portfolio Net Expenditure	12.54 F	10.04 F	2.50 F
Net Revenue Expenditure	7.42 F	4.59 F	2.81 F
Financing	0.13 F	0.00	0.13 F
(Surplus) / Deficit for the year before transfer to reserves	7.56 F	4.59 F	2.94 F

Numbers are rounded

4. £7.20M of the Portfolios business as usual outturn variance relates to Children & Learning. The main element of the adverse variance (£3.63M) continues to be for Looked After Children Provision, due to the higher number of children in residential care and independent fostering agencies than budgeted.
5. The outturn position for the General Fund on COVID-19 pressures for the year (before the final transfer to reserves) is a favourable variance of £1.07M, a favourable movement of £7.42M from the position forecast at quarter 3. Details of the significant movements since quarter 3 (in excess of £0.2M) are provided in Annex 1.1.

Table 3 – General Fund COVID-19 Pressures Outturn 2020/21

General Fund	COVID-19 Pressures Outturn £M	COVID-19 Pressures Qtr 3 £M	COVID-19 Pressures Movement from Qtr 3 £M
Portfolios Net Expenditure	28.29 A	34.53 A	6.24 F
Non-Portfolio Net Expenditure	6.11 F	6.14 F	0.03 A
Net Revenue Expenditure	22.18 A	28.49 A	6.31 F
Financing	23.25 F	22.14 F	1.11 F
(Surplus) / Deficit for the year before transfer to reserves	1.07 F	6.35 A	7.42 F

Numbers are rounded

6. £6.82M of the Portfolios favourable movement from quarter 3 relates to Health & Adults and is mainly due to hospital discharge costs being met by the Clinical Commissioning Group instead of the Council and government funded support replacing forecast Council support to care providers.

7.	A summary of COVID-19 government grants for 2020/21 is provided at Annex 1.2.								
	<u>Budget Carry Forwards</u>								
8.	<p>A number of service areas have requested the carry forward of budgets from 2020/21. Those recommended to Council for approval are summarised in Annex 1.3 and total £6.06M. It is expected that this spend will be incurred in 2021/22. A significant part of the £6.06M where budget provision is being carried forwards to 2021/22 relates to work which was interrupted or incomplete due to COVID-19 related delays.</p> <p>There is also £35.04M of unspent grant funding being carried forward, most of which is COVID-19 related. The lion's share of the £35.04M is represented by £25.80M of government grant funding for business rates (£24.67M) and council tax (£1.13M) shortfalls (see paragraphs 19 and 27 below) which is required to be carried forward to offset the Collection Fund deficit being recouped in 2021/22.</p>								
	<u>Property Investment Fund</u>								
9.	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 1.4 gives the details of this fund and Cabinet is asked to recommend Council note the performance.								
10.	There have been no additional purchases during the year. The rate of return on investment in 2020/21 before borrowing costs and other on-costs was 6.07%. Borrowing costs of 3.90% were incurred giving a net rate of return of 2.17%. All of the properties remain fully let and the tenants are meeting their financial obligations under the leases (although one tenant has vacated the premises but continues to honour the lease).								
11.	Investment properties are required to be revalued every year. The current valuation for those within the Property Investment Fund is £24.26M, a reduction in value compared with last year of £1.23M (a loss was also reported in 2019/20 of £2.81M). Under current accounting rules these reduced values do not impact on the General Fund.								
	<u>Treasury Management</u>								
12.	The Treasury Management outturn for 2020/21 will be reported to Governance Committee on 26 July 2021.								
	<u>Dedicated Schools Grant (DSG) and Schools</u>								
13.	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 £8.94M, as shown in Table 4 below. This is further detailed in Annex 1.1.								
	<p>Table 4 – DSG Outturn</p> <table border="1"> <thead> <tr> <th></th> <th>£M</th> </tr> </thead> <tbody> <tr> <td>Carry forward from 2019/20</td> <td>7.42</td> </tr> <tr> <td>Net deficit in year</td> <td>1.52</td> </tr> <tr> <td>Balance to carry forward</td> <td>8.94</td> </tr> </tbody> </table> <p>Numbers are rounded</p>		£M	Carry forward from 2019/20	7.42	Net deficit in year	1.52	Balance to carry forward	8.94
	£M								
Carry forward from 2019/20	7.42								
Net deficit in year	1.52								
Balance to carry forward	8.94								

14. The DSG deficit is being driven by significant year on year increases in the number and complexity of Education and Health Care Plans (EHCPs) and the increasing numbers of pupils with Special Education Needs and Disability (SEND) being placed in highly expensive out of city placements in independent school settings. A working party is undertaking a strategic review of High Needs activity to manage SEND demand and increasing provision of places within Southampton. Anticipated increases in High Needs grant funding from Government are also expected to support the deficit recovery plan.

15. The DSG deficit is contained within the ring-fenced Dedicated Schools Grant funding. It will not impact on the wider council services or council tax payers. In accordance with new regulations, an unusable reserve (the DSG Adjustment Account) has been created to hold the deficit so that it does not form part of the balance on earmarked revenue reserves.

16. There are 13 schools (out of 45 SCC schools) reporting a deficit balance as at the 31 March 2021 as shown in Table 5 below. This is 1 less than the position at the previous year end and the total deficit has decreased by £0.52M. During the year 4 schools cleared their deficits and 3 schools went into deficit from a surplus position.

Table 5 – Schools in Deficit

	2019/20		2020/21	
	Deficit £M	No. of Schools	Deficit £M	No. of Schools
Primary	2.09	9	2.14	9
Secondary	2.54	5	1.97	4
Total	4.63	14	4.11	13

Numbers are rounded

17. These schools are working with the School Finance team to agree deficit recovery plans. Additional resources will continue to be provided in 2021/22 to work with the schools to provide financial advice and assistance with their preparation and implementation of deficit recovery plans.

Reserves & Balances

18. The General Fund balance stands at £10.07M, which is the approved minimum level as per the February 2021 Medium Term Financial Forecast (MTFF).

19. Earmarked reserves totalled £134.55M at the end of 2020/21, comprising £4.17M of schools' balances and £130.38M other revenue reserves. This compares to a forecast of £101.78M at quarter 3 excluding schools' balances and the negative DSG reserve forecast at that time.

Included within reserves is the carry forward of £32.06M of COVID-19 grant funding, of which £24.67M relates to compensation for the loss in business rates income due to the additional reliefs introduced by the government to support particular business sectors during the pandemic. Under national accounting arrangements for business rates the Council share of the deficit on the Collection Fund arises in 2021/22 (i.e. a year after the grant funds compensating for this loss were received), so the funding is being carried forward via reserves to be applied in 2021/22.

As set out in paragraph 15, the DSG deficit has been moved to an unusable reserve and no longer forms part of the balance on earmarked revenue reserves. Further details and the changes to the quarter 3 position are set out in Annex 1.5. The main changes to the quarter 3 position were:

- £11.14M improvement in the Medium Term Financial Risk Reserve arising from the contribution of the year-end surplus (£8.63M), re-phasing of some expected drawdowns into 2021/22 and a forecast drawdown not being required in relation to COVID-19 pressures;
- £6.87M increase in the transfer to the Revenue Grants Reserve for grants being carried forward into 2021/22. The main elements of this are £6.26M which relates to ring-fenced COVID-19 grants plus £2.98M other funding, offset by a reduction of £2.37M in the estimated compensation for business rates and council tax losses;
- £6.06M increase in the Portfolio Carry Forwards Reserve for the budget carry forwards noted in paragraph 8;
- £1.62M reduced drawdown of the Revenue Contributions to Capital Reserve following a review of the financing of the capital spend for the year in order to maximise flexibility of resources and slippage/re-phasing of some capital schemes that ring-fenced revenue financing relates to;
- £1.53M reduced drawdown of the On-Street Parking Reserve due to forecast works not taking place;
- The £1.30M improvement on other reserves includes £0.65M transfer to the Public Health Reserve compared with a forecast drawdown of £0.36M at quarter 3, and £0.27M reduced drawdown of City Deal funding.

20. 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 maintains adequate reserves and monitors all financial risks and acts to mitigate these where it can.

HOUSING REVENUE ACCOUNT (HRA)

21. The HRA has broken even in 2020/21 as summarised in Table 6 below. Further details are provided in Annex 1.6.

Table 6 – Housing Revenue Account Outturn 2020/21

HRA	Final Budget £M	Outturn £M	Outturn Variance £M
Expenditure	75.61	75.69	0.09 A
Income	(75.61)	(75.69)	0.09 F
(Surplus) / Deficit for the year	0.00	0.00	0.00

Numbers are rounded

22. The outturn position for the HRA on business as usual (BAU) activities for the year is a favourable variance of £0.17M, an adverse movement of £0.01M from the position forecast at quarter 3, summarised in Table 7 below. Details of the significant movements since quarter 3 are provided in Annex 1.6.

Table 7 – HRA Business as Usual Outturn 2020/21

HRA	BAU Outturn Variance £M	BAU Forecast Variance Qtr 3 £M	BAU Movement from Qtr 3 £M
Expenditure	0.05 F	0.69 F	0.64 A
Income	0.12 F	0.51 A	0.63 F
(Surplus) / Deficit for the year	0.17 F	0.18 F	0.01 A

Numbers are rounded

23. The outturn position for the HRA for pressures from COVID-19 is summarised in Table 8 below. Details of the significant movements since quarter 3 are provided in Annex 1.6.

Table 8 – HRA COVID-19 Pressures Outturn 2020/21

HRA	COVID-19 Pressures Outturn £M	COVID-19 Pressures Qtr 3 £M	COVID-19 Pressures Movement from Qtr 3 £M
Expenditure	0.07 A	1.25 A	1.18 F
Income	0.10 A	0.04 A	0.06 A
(Surplus) / Deficit for the year	0.17 A	1.29 A	1.12 F

Numbers are rounded

COLLECTION FUND (for Business Rates and Council Tax)

24. Proceeds from local business rates and council tax are paid into the Collection Fund operated by the City Council, and then paid out to meet the net budgeted amounts of not only Southampton City Council (SCC) but also the Hampshire Police & Crime Commissioner, Hampshire and Isle of Wight Fire & Rescue Authority. Government also receives a 50% share of the proceeds from the local business rates collected.
- The outturn for the Collection Fund as a whole is an overall deficit of £51.86M, as shown in Annex 1.7 and summarised in Table 9. The table shows a comparison of the outturn position with the revised estimate at quarter 3.

Table 9 – Overall Collection Fund Deficit/(Surplus) Carried Forward

	Outturn £M	Quarter 3 Revised Estimate £M	Movement from Qtr 3 £M
Council Tax	1.18	3.13	1.95 F
Business Rates	50.68	56.29	5.60 F
Total	51.86	59.41	7.55 F

Numbers are rounded

25. The vast majority of the outturn deficit relates to the Government's expansion of the business rates 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 (£50.19M). These additional reliefs have been funded by Government grant.

26. Eligible claims for council tax support will lower the yield provided from council tax. The favourable movement since quarter 3 for Council Tax is due to a lower increase in the Local Council Tax Support working age claimants than forecast, plus a reduction in the amount set aside for bad debts.
The favourable movement for Business Rates is mostly due to a reduction in the provision for refunds, following the Government's announcement that appeals relating to COVID-19 restrictions will be ruled out.

27. The net impact for Southampton City Council alone is shown in Table 10.

Table 10 – SCC Share of Collection Fund Deficit 2020/21

	Council Tax £M	Business Rates £M	Total £M
Outturn - SCC Share of Deficit	1.00	24.79	25.79
Less: SCC additional Government Grant for business rates reliefs		(24.67)	(24.67)
Less: SCC additional Government Grant for compensation for irrecoverable tax losses	(1.13)	0.00	(1.13)
Outturn - SCC Net Share of Deficit after additional Government Grant	(0.13)	0.12	(0.01)
Quarter 3 Revised Estimate SCC Net Share of Deficit after additional Government Grant	0.64	1.38	2.02
Movement from Quarter 3	0.77 F	1.26 F	2.03 F

Numbers are rounded

28. The Southampton share of the estimated deficit at quarter 3 was taken into account in setting the 2021/22 General Fund Revenue Budget in February 2021. Under new regulations, the estimated in-year deficit for 2020/21 was spread over the 3 years 2021/22 to 2023/24.

29. The outturn position shows a favourable variance of £2.03M compared with the estimate used for setting the budget. Under the arrangements for operating the

	Collection Fund, differences between the outturn position and the estimates used when setting the budget for the next year are reflected in the following year's estimates. This favourable variance will therefore be taken into account in setting the 2022/23 General Fund Revenue Budget.
	Conclusion
30.	<p>The authority's formal financial statements are still in preparation for the external audit after which they will be submitted for approval by the Governance Committee.</p> <p>COVID-19 has 'stress tested' the Council during 2020/21, which has undertaken key work supporting our residents and local businesses during these difficult times. A robust budget was set in February 2020/21 which factored in financial resilience and an allowance for potential risks. This robustness, and a variety of Government funding streams supporting the Council during COVID-19, has meant a year-end surplus of £8.6M can be reported.</p> <p>However, the challenges facing the Council will continue into 2021/22 with the Covid-19 outbreak continuing and the Government's road map out of lock down not expected to be completed until 19 July, as at the time of writing. The economic effects of the pandemic are likely to be with us for longer than the current financial year with council spending and income almost certainly vulnerable to continuing COVID related pressure. The Council's financial resilience will therefore need careful vigilance and stewardship to ensure the Council can continue to meet these financial challenges and support our communities.</p>

Annexes

1. General Fund Revenue Account Outturn 2020/21
2. COVID-19 Government Grants 2020/21
3. Budget Carry Forwards 2020/21
4. Property Investment Fund 2020/21
5. Earmarked Reserves 2020/21
6. Housing Revenue Account Outturn 2020/21
7. Collection Fund Outturn 2020/21