REVENUE FINANCIAL MONITORING FOR THE PERIOD TO DECEMBER 2021

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 £7.48M deficit. The forecast for portfolios net expenditure has worsened by £0.64M compared to the position as at the end of quarter 2. The BAU financial position is summarised in Table 1 below, together with the corporate funds to be applied to meet the forecast deficit.

Table 1 – General Revenue Fund Business as Usual Forecast 2021/22

	Budget Qtr 3 £M	BAU Annual Forecast Qtr 3 £M	BAU Forecast Variance Qtr 3 £M	BAU Forecast Variance Qtr 2 £M	BAU Variance Movement from Qtr 2 £M
Portfolios Net Expenditure	214.88	222.62	7.75 A	7.11 A	0.64 A
Non-Portfolio Net Expenditure	(41.02)	(41.02)	0.00	0.00	0.00
Net Revenue Expenditure	**173.85**	**181.60**	**7.75 A**	**7.11 A**	**0.64 A**
Financing	(173.85)	(174.12)	0.27 F	0.00	0.27 F
(Surplus) / Deficit	**0.00**	**7.48**	**7.48 A**	**7.11 A**	**0.37 A**
To be met from the Social Care Demand Reserve			**6.75 F**		
To be met from centrally held budgets			**0.73 F**		
(Surplus)/Deficit after applying corporate funds			**0.00**		

NB Numbers are rounded

2. The most significant adverse variance on business as usual activities continues to be for the Children's Social Care portfolio, which is forecast to be in deficit by £6.30M, an increase of £0.38M from quarter 2. The full extent of the deficit is partly masked by a transfer of the JIGSAW service to the Education portfolio. Without this transfer the Children's Social Care deficit would have been £1.56M higher. This deficit relates mainly to Looked After Children Provision, with increased numbers and cost of placements and cases and additional staffing costs. At its meeting on 15 November 2021, Cabinet approved the use of corporate funds to meet £1.3M of this deficit relating to costs of unfunded service critical posts. These staffing costs are included in the deficit noted above and are being met from a drawdown from the Social Care

	Demand Reserve, forming part of the £6.75M total drawdown from the Reserve set out in Table 1.
3.	A further £1.14M will be drawdown from the Social Care Demand Reserve in 2021/22 to meet additional staffing costs within Health & Adult Social Care, with the on-going impact included as part of the budget pressures outlined in the 2022/23 Budget Report. These additional staffing costs are not included in the £1.09M BAU forecast deficit for Health & Adult Social Care shown in Annex 1.1.
4.	The current forecast variance due to COVID-19 is a £0.72M adverse variance, a worsening of £0.36M compared to the position as at the end of quarter 2. The COVID-19 financial position is summarised in Table 2 below, together with the corporate funds to be applied to meet the forecast deficit.

Table 2 – General Revenue Fund Forecast COVID-19 Variance 2021/22

	COVID Forecast Variance Qtr 3 £M	COVID Forecast Variance Qtr 2 £M	COVID Variance Movement from Qtr 2 £M
Portfolios Net Expenditure	2.24 A	1.86 A	0.37 A
Non-Portfolio Net Expenditure	0.00	0.00	0.00
Net Revenue Expenditure	**2.24 A**	**1.86 A**	**0.37 A**
Financing	1.51 F	1.50 F	0.01 F
(Surplus) / Deficit	**0.72 A**	**0.36 A**	**0.36 A**
To be met from centrally held budgets	**0.72 F**		
(Surplus)/Deficit after applying corporate funds	**0.00**		

NB Numbers are rounded

5.	The budget agreed by Council in February 2021 included provision for expected pressures from COVID-19 related additional expenditure and income losses. The most significant adverse variance for COVID-19 is in the Growth portfolio, which is forecasting a COVID-19 deficit of £1.37M, most of which is reduced income from parking and Itchen Bridge toll fees and planning applications. The Council is expecting to receive a total of £1.51M of fees and charges losses compensation plus grant income for new duties carried out as a result of COVID-19, which will help to offset the shortfall.
6.	More detail, including explanations of significant movements in variances between quarter 2 and quarter 3 (in excess of £0.2M) is provided in Annex 1.1.

7.	In June 2020, Council agreed that in order to help respond quickly to the pandemic, agreeing significant grants and associated spending could be delegated to the S151 officer, following consultation with senior members of the Cabinet. Annex 1.2 reports grants received in 2021/22 which are COVID-19 related, for information.
	Implementation of Savings Proposals
8.	Of the £10.77M savings plans included within the 2021/22 budget £9.52M have been achieved or are on track to be achieved before the end of this financial year. £0.38M of the remaining £1.25M have not been progressed because of the COVID-19 pandemic and are included within the COVID forecast variance reported in Table 2 above.
	Treasury Management
9.	Treasury Management borrowing and investment balances as at 31 December 2021 and forecasts for the year-end are set out in Annex 1.3. After taking into account maturing and new debt requirements in year and a forecast reduction in investment balances, net borrowing is expected to increase by £140.28M for 2021/22. This will change throughout the year as capital plans firm up and actual cash flow are known. The forecast cost of financing the council's loan debt is £15.21M of which £4.90M relates to the HRA, however this will be subject to movement as the need for further borrowing for the remainder of the year becomes more certain.
10.	Although we currently do not have any short term debt, we anticipate borrowing before year end to replace maturing long term debt, expected reduction in reserves and to fund the forecast capital programme for the year, until a decision is taken with regards to long term borrowing. Any increase in short term borrowing costs will be offset by a reduction in long term costs. This is later than previously reported as cash flows have remained higher than expected.
11.	The Council will continue to monitor the impact of COVID-19 on financial markets and provide updates via the Treasury Management reports to Governance Committee.
12.	Annex 1.3 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 2021. The Council has operated within the agreed prudential indicators for the first 9 months of the year and is forecast to do so for the remainder of the year. CIPFA published revised Prudential and Treasury Management Codes in December 2021. The impact of the new codes on the Council is being assessed. Guidance on the new codes, including treasury management prudential indicators, has not yet been published.
	Reserves & Balances
13.	The General Fund Balance is currently £10.07M with no planned drawdown during the year.
14.	At the 31 March 2021, earmarked revenue reserves totalled £130.38M, plus Schools Balances totalling £4.17M. The balance at 31 March 2021 included revenue grants totalling £35.04M carried forward via the Revenue Grants Reserve - General, predominantly relating to COVID-19, which are expected to be used in 2021/22. The estimated forecast position as at the 31 March 2022 is £77.55M, plus Schools Balances forecast to be £2.30M (excluding the £0.9M deficit for the school that converted to an Academy in September noted in paragraph 16). The council holds a

	Medium Term Financial Risk Reserve (MTFR), which exists to provide cover for a variety of anticipated risks such as future funding via Government financial settlements, budget management issues including any non delivery of expected savings and unexpected events that produce financial ‘shocks’. The MTFR reserve is currently estimated as having a £32.65M balance unallocated. This reserve is also important as it creates capacity for transformation and invest to save measures and therefore enhances our financial resilience and sustainability.
	Key Financial Risks
15.	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 1.4.
	Schools
16.	As at 31 December 2021 there were 13 schools reporting a deficit balance totalling £3.3M Added to this, one school became an Academy on 1 September 2021, with a deficit of around £0.9M which will need to be covered by the Council under Government regulations and is included in the forecast use of corporate reserves. The total of deficits at quarter 3, including that of the new Academy school, is therefore around £4.2M, which compares with a forecast of £4.2M at the end of quarter 2. There are 30 schools reporting a surplus totalling £5.9M, of which £0.3M has been loaned to a school for a capital scheme. The net position is therefore an overall surplus of £2.3M for schools, excluding the deficit from the Academy transfer. All schools with deficit budgets continue to be supported by the Education Finance Team to develop Deficit Recovery Plans (DRP).
17.	The current 3-year deficit recovery timetable for schools in deficit to get back to a balanced budget may be extended to 5 years if necessary, for schools with significant COVID-19 pressures.
	Dedicated Schools Grant (DSG) 2021/22
18.	The forecast outturn for the Dedicated Schools Grant (DSG) as at the end of December 2021 is a £9.8M cumulative deficit, which includes £0.15M for COVID-19 related pressures. The deficit has grown by £1.0M due to increases in the number of pupils with an Education Health Care Plan (EHCP) within mainstream schools. The financial impact of fewer out of city placements should be available next quarter. The DSG Grant is ringfenced and the deficit will not impact on the General Fund and non-school services the Council provides. This deficit is being driven by significant year on year annual increases in the number and complexity of EHCPs and increasing numbers of pupils with Special Educational Needs and Disability (SEND) being placed in expensive out of city placements in independent school settings. A working party commenced a strategic review of High Needs activity to manage SEND demand and is increasing pupil capacity within the City to avoid external placements, with provision within the General Fund capital programme related to this. The deficit includes a brought forward deficit of £8.9M from the previous year, of which £8.0M is High Needs and £0.9M is from the impact of COVID-19 and lost fee income on Early Years. Pressures on the High Needs services is a nationally recognised issue with significant pressures reported in most local authorities as a result of historical grant funding allocations not having kept pace with

the significant demand increases in the number and complexity of children with SEND. The 12% increase in High Needs funding in 2021/22 and a £0.23M transfer from the schools block will mitigate some of the pressure being experienced but further work is needed to reduce costs where possible.

Financial Health Indicators

19. 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 1.5 outlines the performance to date, 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.

20. For Income Collection, the outstanding debt more than 12 months old has increased from the quarter 2 position, mainly for commercial debt. Over half of the debt that has moved into the over 12 months age bracket relates to two customers with insolvency cases which are currently in the process of either liquidation or negotiation with their creditors. While there remains a possibility of payment (be it in full or partial) these debts are not being considered for write-off.

For Creditor Payments, the percentage of valid and undisputed invoices paid within 30 days has reduced from the quarter 2 position. Opportunities to further increase consolidated invoicing to improve processing and approval times are being explored, along with continuing to remind managers to approve invoices in a timely fashion. A bi-weekly report is now being used to engage with users who have approvals and goods receipts notes that are outstanding for more than 30 days.

Housing Revenue Account

21. The current forecast position for the Housing Revenue Account on business as usual (BAU) activities for the year is projected to be a surplus of £0.92M. There is no change to the overall forecast compared to the position as at the end of quarter 2. The BAU financial position is summarised in Table 3 below.

Table 3 – Housing Revenue Account Business as Usual Forecast 2021/22

	Budget Qtr 3 £M	BAU Annual Forecast Qtr 3 £M	BAU Forecast Variance Qtr 3 £M	BAU Forecast Variance Qtr 2 £M	BAU Variance Movement from Qtr 2 £M
Expenditure	75.87	74.73	1.14 F	1.14 F	0.00
Income	(75.87)	(75.65)	0.22 A	0.22 A	0.00
(Surplus) / Deficit	**0.00**	**(0.92)**	**0.92 F**	**0.92 F**	**0.00**

NB Numbers are rounded

22. The current HRA forecast variance due to COVID-19 is a break even position, with the £0.57M surplus that was reported at quarter 2 now being factored into the BAU forecast. The COVID-19 financial position is summarised in Table 4 below.

Table 4 – Housing Revenue Account Forecast COVID-19 Variance 2021/22

	COVID Forecast Variance Qtr 3 £M	COVID Forecast Variance Qtr 2 £M	COVID Variance Movement from Qtr 2 £M
Expenditure	0.00	0.57 F	0.57 A
Income	0.00	0.00	0.00
(Surplus) / Deficit	**0.00**	**0.57 F**	**0.57 A**

NB Numbers are rounded

23. Further details, including explanations of significant movements in variances between quarter 2 and quarter 3 (in excess of £0.2M) are provided in Annex 1.6.

<u>Collection Fund</u>

24. Annex 1.7 shows the forecast outturn position for the Collection Fund at quarter 3, with the position summarised in Table 5.

Table 5 – Collection Fund Forecast 2021/22

	Council Tax £M	Business Rates £M	Total £M
Contribution to previous years' estimated deficit	(2.60)	(52.31)	(54.91)
Net income and expenditure for 2021/22	(1.23)	27.89	26.66
Surplus for the year	**(3.83)**	**(24.42)**	**(28.25)**
Deficit brought forward from 2020/21	1.18	50.68	51.86
Overall Deficit/(Surplus) Carried Forward	**(2.65)**	**26.26**	**23.61**
SCC Share of Deficit/(Surplus)	**(2.25)**	**12.87**	**10.62**
Less: SCC additional Government Grant for business rates reliefs		(16.03)	(16.03)
SCC Net Share of Deficit/(Surplus) after additional Government Grant	**(2.25)**	**(3.16)**	**(5.41)**
Less: Estimated 2020/21 in-year deficit spread into 2023/24	(0.22)	(0.98)	(1.20)
SCC Net Share of Deficit/(Surplus) after additional Government Grant to be taken into account in 2022/23 budget setting	**(2.47)**	**(4.14)**	**(6.61)**

NB Numbers are rounded

25. The position on the Collection Fund as a whole is a deficit to be carried forward of £23.61M <u>before</u> extra Government grant. The deficit primarily relates to the

	Government's continuation of the business rates expanded retail and nursery discount schemes (100% relief for April – June 2021 and 66% relief for the remainder of the year) (£23.73M relief) and the COVID Additional Relief Fund (CARF) scheme announced in December 2021 (£8.61M relief), a total of £32.34M additional relief compared to the original estimate. These additional reliefs are being funded in full by Government grant. Without these additional reliefs there would have been a surplus for the year. This forecast is based on bills raised for 2021/22 as at the end of December 2021. The overall deficit has increased by £8.25M compared to the position at quarter 2, largely due to the introduction of the CARF scheme.
26.	The table shows the net impact for SCC only as a forecast surplus of £5.41M, once the additional Government grant for extra business rates reliefs is factored in. This is a £0.68M worsening compared to the forecast at quarter 2. The surplus is a combination of a lower deficit being carried forward from 2020/21 into 2021/22 than had been estimated in January 2021 and better in-year performance due to fewer working age local council tax support claimants, less empty property business rates reliefs and a reduction in the amount required to be set aside for business rates appeals compared with what had been estimated. There is uncertainty as to what effect, if any, the recent upsurge in cases of COVID-19 may have and also if other economic factors such as energy price increases and higher inflation will have an impact on Collection Fund performance. As a risk area to the SCC budget, financial trends will be carefully monitored.
27.	To reduce the financial impact in 2021/22 of exceptional losses arising in 2020/21 due to the COVID-19 pandemic, the government made regulations to require 2020/21 in-year deficits to be spread over 3 years. For SCC this means £1.20M of the deficit brought forward from 2020/21 is being carried over into 2023/24 and does not form part of the Collection Fund surplus/deficit being taken into account in setting the 2022/23 budget, as noted in the budget report elsewhere on this agenda.
	Conclusion and Outlook
28.	This is the third report on our financial forecast for 2021/22 and we continue to separate the variances arising from the COVID-19 pandemic from those for business as usual (BAU) activities to enable a clearer view of the financial impact of the pandemic. The Council continues to face significant financial pressure on BAU, particularly within Children's Social Care. This is a major contributing factor behind a £7.48M deficit forecast for the year as at quarter 3 for BAU. Many of these pressures continue into 2022/23, as outlined in the budget report elsewhere on this agenda. The on-going response to and recovery from the COVID-19 pandemic continues to be a major issue. Budgetary pressure also continues to arise due to the pandemic, which is separately identified above and shows a deficit of £2.24M for portfolios. Losses of parking revenue, toll bridge fees and income from court cases to recover council tax and business rates are substantial factors behind the adverse variance. After allowing for the Government compensation and support for the extra administrative costs for dealing with COVID-19, estimated at £1.51M of funding, the net COVID-19 deficit is estimated as £0.72M. Government's scheme of compensation for fees and charges income lost due to COVID-19 ceased at the end of quarter 1, so any additional forecast reductions, over and above those currently factored into estimates, will produce a worsening forecast for the Council.

	The pay award for 2021/22 has not yet been settled, with the offer of a 1.75% increase being rejected by Trade Unions. A 0.5% assumption was made for pay, and provision set aside within centrally held budgets. Any agreement over this sum will be an additional cost strain, funded from centrally held budgets. Some additional grant funding for 2022/23 was allocated to the Council in the local government finance settlement, however, this only goes part way to meeting the budget pressures being experienced. The budget report elsewhere on this agenda sets out the measures being taken to balance the budget for next year. While the Council is currently in a solvent position, action needs to be taken in the medium term to address the shortfall between the Council's budgeted expenditure and anticipated funding. The forecast included in this quarterly report highlights the very major risks experienced from the strong demand level currently being seen within Children's Social Care. The action plan being implemented to mitigate this budget pressure will be regularly monitored to confirm delivery and allow for further corrective action if the situation does not improve as expected.

Annexes

1. General Revenue Fund Forecast Qtr 3 2021/22
2. COVID-19 Government Grants
3. Treasury Management Qtr 3 2021/22
4. Key Financial Risk Register Qtr 3 2021/22
5. Health Indicators Qtr 3 2021/22
6. HRA Forecast Qtr 3 2021/22
7. Collection Fund Qtr 3 2021/22