

## REVENUE OUTTURN 2021/22

The focus for this report is on indicating the changes since the financial monitoring position reported to Cabinet at its meeting on 21 February 2022 (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 2021/22, variances against budget provided for COVID-19 pandemic related issues have been monitored and reported on separately to variances on '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 variances 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 £10.93M. 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 2021/22**

	<b>Final Budget £M</b>	<b>Outturn £M</b>	<b>Outturn Variance £M</b>
Portfolios Net Expenditure	216.65	223.42	6.77 A
Non-Portfolio Net Expenditure	(46.00)	(61.38)	15.38 F
<b>Net Revenue Expenditure</b>	<b>170.66</b>	<b>162.04</b>	<b>8.61 F</b>
Financing	(170.66)	(172.97)	2.31 F
<b>(Surplus) / Deficit for the year before transfer to reserves</b>	<b>0.00</b>	<b>(10.93)</b>	<b>10.93 F</b>
Transfer to Reserves – Year End Surplus		10.93	10.93 A
<b>(Surplus) / Deficit for the year</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

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 £9.64M, a favourable movement of £9.64M from the position forecast at quarter 3. The forecast position at quarter 3 was to break even, after the use of corporate resources. 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 2021/22**

<b>General Fund</b>	<b>BAU Outturn Variance £M</b>	<b>BAU Forecast Variance Qtr 3 £M</b>	<b>BAU Movement from Qtr 3 £M</b>
Portfolios Net Expenditure	6.15 A	7.75 A	1.60 F
Non-Portfolio Net Expenditure	15.38 F	7.48 F	7.90 F
<b>Net Revenue Expenditure</b>	<b>9.23 F</b>	<b>0.27 A</b>	<b>9.50 F</b>
Financing	0.41 F	0.27 F	0.14 F
<b>(Surplus) / Deficit for the year before transfer to reserves</b>	<b>9.64 F</b>	<b>0.00</b>	<b>9.64 F</b>

Numbers are rounded

4. £7.31M of the portfolios business as usual adverse net outturn variance relates to Children's Social Care. The main element of the adverse variance (£4.56M) continues to be for Children Looked After, due to the higher number of children in residential care and independent fostering agencies than budgeted.
5. The £15.38M favourable outturn variance on non-portfolio net expenditure is primarily from a £7.83M contribution from the Social Care Demand Reserve (which stand at £0 from 1 April 2022) and a release of £5.59M from centrally held budgets.
6. The outturn position for the General Fund on COVID-19 budgets for the year (before the final transfer to reserves) is a favourable variance of £1.29M, a favourable movement of £1.29M from the position forecast at quarter 3. The forecast position at quarter 3 was to break even, after the use of corporate resources. 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 Outturn 2021/22**

<b>General Fund</b>	<b>COVID Outturn Variance £M</b>	<b>COVID Forecast Variance Qtr 3 £M</b>	<b>COVID Variance Movement from Qtr 3 £M</b>
Portfolios Net Expenditure	0.61 A	2.24 A	1.63 F
Non-Portfolio Net Expenditure	0.00	0.72 F	0.72 A
<b>Net Revenue Expenditure</b>	<b>0.61 A</b>	<b>1.51 A</b>	<b>0.90 F</b>
Financing	1.90 F	1.51 F	0.39 F
<b>(Surplus) / Deficit for the year before transfer to reserves</b>	<b>1.29 F</b>	<b>0.00</b>	<b>1.29 F</b>

Numbers are rounded

7.	A summary of COVID-19 government grants for 2021/22 is provided at Annex 1.2. Application of these grants (including funding carried forward from 2020/21) to COVID-19 related costs incurred by the Council has been maximised, to reduce the financial impact of the pandemic.
	<b><u>Budget Carry Forwards</u></b>
8.	<p>A number of service areas have requested the carry forward of budgets from 2021/22. These are summarised in Annex 1.3 and total £4.12M. Council is recommended to approve the carry forward of this sum. However, given the significant inflationary cost pressures faced in the current year and the major budget shortfall forecast for 2023/24 (circa £23,4M) highlighted in the February 2022 Medium Term Financial Strategy to be addressed, Council is recommended to agree that release of the carry forwards is subject to a business case to be approved by the Executive Director for Finance, Commercialisation &amp; S151 Officer, after consultation with the Cabinet Member for Finance &amp; Change.</p> <p>There is also £18.11M of unspent revenue grant funding being carried forward, most of which is COVID-19 related. Of this, £11.60M is compensation for business rates reliefs (see paragraphs 19 and 27 below) which is required to be carried forward to offset the Collection Fund deficit being recouped in 2022/23.</p>
	<b><u>Property Investment Fund</u></b>
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 2021/22 before borrowing costs and other on-costs was 6.03%. Borrowing costs of 3.90% were incurred giving a net rate of return of 2.13%. 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 £25.68M, an increase in value compared with last year of £1.42M (a reduction in value of £1.23M was reported in 2020/21). Under current accounting rules changes in the value of investment properties do not impact on the General Fund.
	<b><u>Treasury Management</u></b>
12.	The Treasury Management outturn for 2021/22 will be reported to Governance Committee on 25 July 2022.
	<b><u>Dedicated Schools Grant (DSG) and Schools</u></b>
13.	The Dedicated Schools Grant is a ring-fenced grant and balances are carried forward each year. The position at year end is a cumulative deficit of £11.09M, as shown in Table 4 below. This is further detailed in Annex 1.1.

**Table 4 – DSG Outturn**

	£M
Deficit carried forward from 2020/21	8.93
Net deficit in year	2.16
<b>Balance to carry forward</b>	<b>11.09</b>

Numbers are rounded

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. There is also pressure on Early Years funding from a reduction in children placed in Early Years settings. Work is continuing to review High Needs activity to manage SEND demand and increase the 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 Schools Budget is ringfenced and the DSG deficit will not impact on the wider council services or council tax payers. In accordance with regulations, the deficit is held within an unusable reserve so that it does not form part of the balance on earmarked revenue reserves.

16. There are 13 schools (out of 43 SCC schools) reporting a deficit balance as at the 31 March 2022 as shown in Table 5 below. There are the same number of schools reporting a deficit as at the previous year end and the total deficit has decreased by £0.48M. During the year one school cleared its deficit and two schools went into deficit from a surplus position. One school reporting a deficit at the previous year end converted to an academy during the year, with the deficit balance of £0.78M being met from the General Fund upon its conversion to an academy as required by the legislation. One other school converted to an academy during the year reducing the number of SCC maintained schools from 45 to 43.

**Table 5 – Schools in Deficit**

	2020/21		2021/22	
	Deficit £M	No. of Schools	Deficit £M	No. of Schools
Primary	2.14	9	2.70	10
Secondary	1.97	4	0.93	3
<b>Total</b>	<b>4.11</b>	<b>13</b>	<b>3.63</b>	<b>13</b>

Numbers are rounded

17. These schools are working with the School Finance team to agree deficit recovery plans.

### **Reserves & Balances**

18. The General Fund balance stands at £10.07M, which is the approved minimum level as per the February 2022 Medium Term Financial Strategy (MTFS).

19.	<p>Earmarked reserves totalled £101.89M at the end of 2021/22, comprising £5.70M of schools' balances and £96.19M other revenue reserves. This compares to a forecast of £77.5M at quarter 3 excluding schools' balances.</p> <p>Included within reserves is the carry forward of £14.08M of COVID-19 grant funding, of which £11.60M relates to government compensation for the loss in 2021/22 business rates income due to continuation of reliefs provided to support particular business sectors during the pandemic. Under accounting arrangements for business rates the Council's estimated share of the loss on the Collection Fund caused by the additional reliefs is charged to the General Fund in 2022/23 (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 2022/23.</p> <p>Further details and the changes to the quarter 3 position are set out in Annex 1.5. The main changes to the position at quarter 3 were:</p> <ul style="list-style-type: none"> <li>• £11.74M improvement in the Medium Term Financial Risk Reserve arising from the contribution of the year-end surplus (£10.93M), transfer of the unused balance on the Digital Strategy Reserve (£1.06M), re-phasing of some expected drawdowns into 2022/23 (£0.33M), differences between forecast and actual drawdowns (£0.12M), offset by slippage in an expected contribution to the reserve (£0.70M);</li> <li>• £2.08M increase in the transfer to the Revenue Grants Reserve for grants being carried forward into 2022/23. The main elements of this are £2.48M relating to ring-fenced COVID-19 grants plus £4.03M other funding, offset by a reduction of £4.43M in the estimated compensation for business rates losses due to award of the Covid Additional Relief Fund being deferred until 2022/23 (see paragraph 30 below);</li> <li>• £4.12M increase in the Portfolio Carry Forwards Reserve for the budget carry forwards noted in paragraph 8.</li> </ul>																
20.	<p>Given the uncertainty caused by the Ukrainian conflict, cost of living crisis and any ongoing effects from the COVID-19 pandemic on the Council's expenditure and income, 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.</p>																
<b>HOUSING REVENUE ACCOUNT (HRA)</b>																	
21.	<p>The HRA has made a surplus of £0.92M in 2021/22 as summarised in Table 6 below. Further details are provided in Annex 1.6.</p>																
<b>Table 6 – Housing Revenue Account Outturn 2021/22</b>																	
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">HRA</th> <th style="text-align: center;">Final Budget £M</th> <th style="text-align: center;">Outturn £M</th> <th style="text-align: center;">Outturn Variance £M</th> </tr> </thead> <tbody> <tr> <td>Expenditure</td> <td style="text-align: center;">75.87</td> <td style="text-align: center;">74.39</td> <td style="text-align: center;">1.48 F</td> </tr> <tr> <td>Income</td> <td style="text-align: center;">(75.87)</td> <td style="text-align: center;">(75.31)</td> <td style="text-align: center;">0.56 A</td> </tr> <tr> <td><b>(Surplus) / Deficit for the year</b></td> <td style="text-align: center;"><b>0.00</b></td> <td style="text-align: center;"><b>(0.92)</b></td> <td style="text-align: center;"><b>0.92 F</b></td> </tr> </tbody> </table>		HRA	Final Budget £M	Outturn £M	Outturn Variance £M	Expenditure	75.87	74.39	1.48 F	Income	(75.87)	(75.31)	0.56 A	<b>(Surplus) / Deficit for the year</b>	<b>0.00</b>	<b>(0.92)</b>	<b>0.92 F</b>
HRA	Final Budget £M	Outturn £M	Outturn Variance £M														
Expenditure	75.87	74.39	1.48 F														
Income	(75.87)	(75.31)	0.56 A														
<b>(Surplus) / Deficit for the year</b>	<b>0.00</b>	<b>(0.92)</b>	<b>0.92 F</b>														
Numbers are rounded																	

22. The outturn position for the HRA on business as usual (BAU) activities for the year is a favourable variance of £0.92M, no movement 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. This favourable outturn was intended, to help with HRA pressures during 2022/23 given there was a Council decision to freeze rents.

**Table 7 – HRA Business as Usual Outturn 2021/22**

HRA	BAU Outturn Variance £M	BAU Forecast Variance Qtr 3 £M	BAU Movement from Qtr 3 £M
Expenditure	1.48 F	1.14 F	0.34 F
Income	0.56 A	0.22 A	0.34 A
<b>(Surplus) / Deficit for the year</b>	<b>0.92 F</b>	<b>0.92 F</b>	<b>0.00</b>

Numbers are rounded

23. There were no outturn variances on the COVID-19 budget and no movements since quarter 3.

**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, but also the Hampshire Police & Crime Commissioner and 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 £14.35M, as shown in Annex 1.7 and summarised in Table 8. The table shows a comparison of the outturn position with the revised estimate at quarter 3.

**Table 8 – Overall Collection Fund Deficit/(Surplus) Carried Forward**

	Outturn £M	Quarter 3 Revised Estimate £M	Movement from Qtr 3 £M
Council Tax	(2.76)	(2.65)	0.11 F
Business Rates	17.11	26.26	9.15 F
<b>Total</b>	<b>14.35</b>	<b>23.61</b>	<b>9.26 F</b>

Numbers are rounded

25. The deficit for business rates is largely due to the continuation of the Government's reliefs to support retail, hospitality, leisure and nursery sectors during the pandemic. A total of £23.30M COVID-19 reliefs have been given in 2021/22. The Council receives compensation for these additional reliefs through Government grant.

26. The business rates quarter 3 revised estimate assumed £8.61M of reliefs would be awarded via the Government's Covid Additional Relief Fund (CARF) scheme

announced in December 2021. Award of these reliefs has been deferred until 2022/23 (to retrospectively reduce bills for 2021/22), which has resulted in a lower outturn deficit than previously forecast. The Government compensation for the CARF reliefs has reduced in tandem, therefore there is no net benefit to the Council of this reduction in the deficit. The remainder of the favourable movement for business rates is mostly due to a reduction in the provision for refunds (£0.55M).

27. The net impact for Southampton City Council (SCC) alone is shown in Table 9.

**Table 9 – SCC Share of Collection Fund Deficit/(Surplus) 2021/22**

	<b>Council Tax £M</b>	<b>Business Rates £M</b>	<b>Total £M</b>
Outturn - SCC Share of Deficit/(Surplus)	(2.34)	8.39	6.05
Less: SCC additional Government Grant for business rates reliefs		(11.60)	(11.60)
<b>Outturn - SCC Net Share of Deficit/(Surplus) after additional Government Grant</b>	<b>(2.34)</b>	<b>(3.21)</b>	<b>(5.55)</b>
Quarter 3 Revised Estimate SCC Net Share of Deficit/(Surplus) after additional Government Grant	(2.25)	(3.16)	(5.41)
<b>Movement from Quarter 3</b>	<b>0.09 F</b>	<b>0.05 F</b>	<b>0.14 F</b>

Numbers are rounded

28. The Council's share of the estimated position at quarter 3 was taken into account in setting the 2022/23 General Fund Revenue Budget in February 2022. 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 the Council this means £1.20M of the deficit brought forward from 2020/21 is being carried over into 2023/24 and did not form part of the Collection Fund surplus/deficit taken into account in setting the 2022/23 budget.

29. The outturn position shows a favourable variance of £0.14M compared with the quarter 3 revised estimate. 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 2023/24 General Fund revenue budget.

30. As set out in paragraph 26, the revised estimate at quarter 3 assumed CARF reliefs would be awarded in 2021/22. The 2022/23 General Fund budget includes the Council's share of the estimated deficit on the Collection Fund arising from these reliefs, to be met from compensation grant that was assumed to be receivable in 2021/22 and carried forward via reserves. Due to the deferment of the award of the reliefs no grant was received in 2021/22, however the charge to the General Fund in 2022/23 remains as this is based on the estimated and not the outturn position. Grant will be receivable in 2022/23 when the reliefs are awarded and any differences between estimates and actuals for reliefs/grant will unwind by 2023/24. These timing differences will need to be managed via reserves.

	<b>Conclusion</b>
30.	<p>The authority's formal financial statements are subject to external audit, after which they will be submitted for approval by the Governance Committee.</p> <p>The Council's 2021/22 outturn position has been bolstered by use of one-off funds including reserves, temporary headroom within centrally held budgets and use of short-term grant funding. Funding sources which have been used to offset budget pressures in 2021/22 and helped generate this surplus, will not generally be available to the authority going forward, for example the Social Care Demand Reserve has been exhausted. To maintain the Council's financial resilience, in the absence of these sources of one-off funds, an even greater emphasis will be placed on all services managing often volatile budgets in-year and staying within existing allocated resources.</p> <p>The £10.9M outturn surplus provides additional one-off resource which could help address the significant inflationary pressures being experienced in 2022/23 or other financial risks and/or be used to contribute on a one-off basis to the £23.4M budget shortfall in 2023/24 outlined in the February 2022 Medium Term Financial Strategy.</p> <p>While the Council is currently in a solvent position, it is clear action needs to be taken in the medium term to address the shortfall between the Council's budgeted expenditure and anticipated funding.</p> <p>The outturn position highlights the severe expenditure pressure being experienced from the strong demand level currently being seen within Children's Social Care. Delivery of the action plan to mitigate this pressure is a key component of the 2022/23 budget and onwards and any difficulties in achieving the plan would put further stress on the Council's financial position. The Council's financial resilience will therefore need careful vigilance and stewardship to ensure the Council can continue to meet its financial challenges and support our communities. The challenge will be to make significant savings and ensuring existing budgets can meet the demand pressures faced.</p>

## **Annexes**

1. General Fund Revenue Account Outturn 2021/22
2. COVID-19 Government Grants 2021/22
3. Budget Carry Forwards 2021/22
4. Property Investment Fund 2021/22
5. Earmarked Reserves 2021/22
6. Housing Revenue Account Outturn 2021/22
7. Collection Fund Outturn 2021/22