DECISION-MAKER:		CABINET		
SUBJECT:		FINANCIAL MONITORING FOR THE PERIOD TO THE END OF SEPTEMBER 2022		
DATE OF DECISION:		15 NOVEMBER 2022		
REPORT OF:		CABINET MEMBER FOR FINANCE & CHANGE		
CONTACT DETAILS				
Executive Director	**Title:**	Executive Director for Finance, Commercialisation & S151 Officer		
	Name:	John Harrison	**Tel:**	023 80834897
	E-mail:	John.Harrison@southampton.gov.uk		
Author:	**Title:**	Head of Financial Planning & Management		
	Name:	Steve Harrison	**Tel:**	0739 2864525
	E-mail:	Steve.Harrison@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY

N/A

BRIEF SUMMARY

The report summarises the General Revenue Fund, Housing Revenue Account (HRA) and Collection Fund financial position for the Council as at the end of September 2022 and informs Cabinet of any major changes in the overall General Fund and HRA capital programme for the period 2022/23 to 2026/27.

The General Revenue Fund deficit for the year as outlined in this report is £9.59M as at 30 September 2022 after taking account of £4.02M agreed in-year savings, with the most significant deficit being for the Children & Learning portfolio (£9.43M). Mitigation plans to reduce the forecast deficit have been developed and put into action, however are unlikely to reduce the deficit in full. Ultimately any persisting deficit would need to be met from corporate resources and would therefore impact on the council's future financial resilience and the resources available to help address the £28.90M revised budget shortfall in 2023/24 noted in the Budget Update report to Cabinet on 8 November 2022.

RECOMMENDATIONS:

	General Revenue Fund It is recommended that Cabinet:	
	i)	Notes the forecast outturn position is a £9.59M deficit, after taking account of £4.02M agreed in-year savings, as outlined in paragraph 4 and in paragraph 1 of appendix 1.
	ii)	Notes the performance of treasury management, and financial outlook in paragraphs 5 to 8 of appendix 1.
	iii)	Notes the forecast year end position for reserves and balances as detailed in paragraphs 9 and 10 of appendix 1.

	iv)	Notes the Key Financial Risk Register as detailed in paragraph 11 of appendix 1.
	v)	Notes the performance against the financial health indicators detailed in paragraphs 15 and 16 of appendix 1.
	vi)	Notes the forecast outturn position outlined in the Collection Fund Statement detailed in paragraphs 19 to 22 of appendix 1.
	<u>Housing Revenue Account</u> It is recommended that Cabinet:	
	vii)	Notes the forecast outturn position is a nil variance against budget as outlined in paragraph 5 and paragraph 17 of appendix 1.
	<u>Capital Programme</u> It is recommended that Cabinet:	
	viii)	Notes the revised General Fund Capital Programme, which totals £353.13M as detailed in paragraph 1 of appendix 2.
	ix)	Notes the HRA Capital Programme is £267.12M as detailed in paragraph 1 of appendix 2.
	x)	Approves the addition of £1.32M to the Economic Development programme, along with approval to spend, as detailed in paragraph 4 of appendix 2.
	xi)	Approves the reduction of £0.25M to the Communities & Customer Engagement programme, as detailed in paragraph 5 of appendix 2.
	xii)	Approves the net reduction of £7.11M to the Finance & Change programme, as detailed in paragraphs 6-8 of appendix 2.
	xiii)	Approves the reduction of £0.50M to the Health, Adults & Leisure programme, as detailed in paragraph 9 of appendix 2.
	xiv)	Approves the net reduction of £1.30M to the Housing & Green Environment programme, as detailed in paragraphs 10 and 11 of appendix 2.
	xv)	Approves the addition of £0.5M to the Safer City programme, along with approval to spend, as detailed in paragraph 12 of appendix 2.
	xvi)	Approves the net addition of £0.38M to the Transport & District Regeneration programme, along with approval to spend, as detailed in paragraphs 13-16 of appendix 2.
	xvii)	Approves slippage and rephasing of £18.69M (£14.95M of General Fund and £3.74M of HRA) as detailed in paragraphs 17 and 18 of appendix 2. Noting that the movement has zero net movement over the 5-year programme.
	xviii	Notes that the overall forecast position for 2022/23 at quarter 2 is £162.99M, resulting in a potential surplus of £5.42M, as detailed in paragraphs 19 and 20 of appendix 2.
	xix)	Notes that the capital programme remains fully funded up to 2026/27 based on the latest forecast of available resources although the forecast can be subject to change; most notably regarding the value

		and timing of anticipated capital receipts and the use of prudent assumptions of future government grants to be received.

REASONS FOR REPORT RECOMMENDATIONS	
1.	To ensure that Cabinet fulfils its responsibilities for the overall financial management of the Council's resources.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	Not Applicable.
DETAIL (including consultation carried out)	
	<u>Revenue</u>
3.	The financial position for the General Revenue Fund, Housing Revenue Account (HRA) and Collection Fund for the Council as at the end of September 2022 and key issues are summarised in appendix 1.
4.	The current forecast spending against the council's net General Fund revenue budget for the year of £193.05M is projected to be a £9.59M deficit, after taking account of £4.02M agreed in-year savings, an improvement of £5.65M from the position forecast at the end of June 2022. This is a significant adverse variance which has on-going consequences for the Council's financial sustainability. The most significant deficit is for Children & Learning (£9.43M) and Health, Adults & Leisure has a forecast deficit of £3.37M after using £1.91M of reserves to help meet pressures. Mitigation plans to reduce the forecast deficit have been developed and put into action, however are unlikely to reduce the deficit in full. Ultimately any persisting deficit would need to be met from corporate resources, which would therefore impact on the council's future financial resilience and the resources available to help address the £28.90M revised budget shortfall in 2023/24 noted in the Budget Update report to Cabinet on 8 November. The 2023/24 revised budget shortfall is after taking account of £17.05M draft savings proposals.
5.	The forecast position for the HRA is a nil variance against the budgeted deficit of £0.92M, with a forecast surplus of £0.62M against an expenditure budget of £77.33M offset by a forecast deficit of £0.62M against an income budget of £76.41M. This is no change from the position forecast at the end of June 2022.
	<u>Capital</u>
6.	Appendix 2 sets out any major changes in the overall General Fund and Housing Revenue Account (HRA) capital programme for the period 2022/23 to 2026/27, highlighting the changes in the programme since the last reported position in August 2022. The report also notes the major forecast variances against the approved estimates.
7.	Due to the current financial environment, there has been a need to review the programme, against the backdrop of rising inflation which is significantly increasing construction costs and rising interest rates which has seen the cost of borrowing more than double since the budgets were set in February 2022.

	This review has resulted in £18.69M of slippage (£14.95M General Fund and £3.74M HRA) from 2022/23 into later years, as detailed in paragraphs 17 and 18 of appendix 2 and an overall reduction to the programme of £5.97M (£6.37M General Fund reduction and £0.40M HRA addition)
8.	The current forecast position for 2022/23 at quarter 2 is £162.99M, resulting in a potential surplus of £5.42M, as detailed in paragraphs 19 and 20 of appendix 2.
RESOURCE IMPLICATIONS	
Capital/Revenue	
9.	The revenue and capital implications are contained in the report.
Property/Other	
10.	There are no specific property implications arising from this report other than the schemes already referred to within appendix 2 of the report.
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
11.	Financial reporting is consistent with the Section 151 Officer's duty to ensure good financial administration within the Council.
Other Legal Implications:	
12.	None.
RISK MANAGEMENT IMPLICATIONS	
13.	See comments within report.
POLICY FRAMEWORK IMPLICATIONS	
14.	The update of the Capital Programme forms part of the overall Budget Strategy of the Council.

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	All

SUPPORTING DOCUMENTATION

Appendices

1.	Revenue Financial Monitoring
2.	Capital Financial Monitoring

Documents In Members' Rooms

1.	None
Equality Impact Assessment	

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out?	No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out?	No
Other Background Documents **Equality Impact Assessment and Other Background documents available for inspection at:**	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	The Revenue Budget 2022/23, Medium Term Financial Strategy and Capital Programme (Council 23 February 2022)	

REVENUE FINANCIAL MONITORING FOR THE PERIOD TO SEPTEMBER 2022

FINANCIAL POSITION

1. The current forecast spending against the Council's net General Fund revenue budget for the year is projected to be a deficit of £9.59M after taking account of £4.02M agreed in-year savings. This is a significant adverse variance which has on-going consequences for the Council's financial sustainability. This is summarised in Table 1 below.

Table 1 – General Revenue Fund Forecast 2022/23

	Budget Qtr 2 £M	Annual Forecast Qtr 2 £M	Forecast Variance Qtr 2 £M	Forecast Variance Qtr 1 £M	Variance Movement from Qtr 1 £M
Portfolios Net Expenditure	213.34	229.57	16.23 A	15.26 A	0.97 A
Non-Portfolio Net Expenditure	(20.29)	(22.89)	2.60 F	0.00	2.60 F
Net Revenue Expenditure	**193.05**	**206.68**	**13.63 A**	**15.26 A**	**1.63 F**
Financing	(193.05)	(193.07)	0.02 F	0.02 F	0.00
(Surplus) / Deficit for the year	**0.00**	**13.61**	**13.61 A**	**15.24 A**	**1.63 F**
Further in-year savings agreed	0.00	(4.02)	4.02 F	0.00	4.02 F
(Surplus) / Deficit after in-year savings	**0.00**	**9.59**	**9.59 A**	**15.24 A**	**5.65 F**

NB Numbers are rounded

2. More detail, including explanations of significant movements in variances between quarter 1 and quarter 2 (in excess of £0.2M) is provided in Annex 1.1.

3. The most significant adverse variance is in the Children & Learning portfolio, which is forecast to be in deficit by £9.43M. This deficit relates primarily to Pathways Through Care (£5.57M), with placement numbers not reducing as planned, Home to School Transport (£1.13M), with increased numbers of eligible pupils, and agency staff costs within Safeguarding (£1.81M). The Health, Adults & Leisure portfolio is also forecasting a £3.37M deficit after using £1.91M of reserves to help meet pressures, relating mainly to increases in the costs of care packages. £2.29M of the adverse variances for portfolios relates to increased energy costs.

Mitigation plans to reduce the forecast deficit have been developed and put into action, however are unlikely to reduce the deficit in full. In-year savings of around £4.02M have been agreed so far to help reduce the deficit, as shown in Table 1. Ultimately any persisting deficit would need to be covered by corporate resources

	which would therefore impact on the council's future financial resilience and the resources available to help address the revised £28.90M budget shortfall in 2023/24 noted in the Budget Update report to Cabinet on 8 November 2022.
	Implementation of Savings Proposals
4.	Of the £9.09M savings plans included within the 2022/23 budget £3.56M (39%) have been achieved or are on track to be achieved before the end of this financial year. The balance of £5.53M (61%) are currently not forecast to be achieved and are included in the adverse variances reported for portfolios, with the majority being within Children & Learning. These represent a risk until all management actions required to deliver the savings are complete or alternative savings achieved.
	Treasury Management
5.	Treasury Management borrowing and investment balances as at 30 September 2022 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 forecast reduction in investment balances, net borrowing is expected to increase to £298.52M for 2022/23. 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 £16.71M of which £5.49M 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.
6.	Although we currently do not have any short term debt, we anticipate borrowing short term before year end to replace maturing long term debt, expected reduction in reserves and to fund the 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.
7.	The Council will continue to monitor the financial markets closely, given recent turbulence and market uncertainty, and provide updates via the Treasury Management reports to Governance Committee.
8.	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 2022. The Council has operated within the agreed prudential indicators for the first 6 months of the year and is forecast to do so for the remainder of the year.
	Reserves & Balances
9.	The General Fund Balance is currently £10.07M with no planned drawdown during the year.
10.	At the 31 March 2022, earmarked revenue reserves totalled £96.19M, plus Schools Balances totalling £5.70M. The balance at 31 March 2022 included revenue grants totalling £20.93M carried forward via the Revenue Grants Reserve - General, of which £16.89M relate to COVID-19. All of the grants carried forward are expected to be used in 2022/23. The estimated forecast position as at the 31 March 2023 (excluding Schools Balances) is £52.15M. This doesn't include the cumulative deficit on the Dedicated Schools Grant which is being held in a separate account as noted in paragraph 14. The council holds a Medium Term Financial Risk (MTFR) Reserve, 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'.

	£1.91M being held in the MTFR Reserve for Adult Social Care cost pressures has been applied this quarter. The MTFR reserve is currently estimated as having a £41.19M balance unallocated at the end of the end of the MTFS period, however this doesn't include any contribution towards the remaining in-year deficit highlighted in paragraph 1 or budget shortfall for 2023/24. This reserve is also important as it creates some capacity for transformation and invest to save measures and therefore helps to provide both financial resilience and support financial sustainability.
	Key Financial Risks
11.	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.
	Schools
12.	As at 30 September 2022 there were 11 schools reporting a deficit balance totalling £4.2M which compares to deficits totalling £3.6M at the end of the last financial year (2021/22). There are 30 schools forecasting a surplus balance of £6.4M which compares to surpluses totalling £9.3M at the end of the last financial year. The net position is therefore a £2.2M surplus. Three schools have been issued with notices of concern regarding their budget position. Support and guidance are being provided by council services to assist the schools to develop Deficit Recovery Plans (DRP). These schools will be carefully monitored and further actions cannot be ruled out to ensure improved financial management.
13.	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 that have experienced significant COVID-19 pressures.
	Dedicated Schools Grant (DSG) 2022/23
14.	The forecast outturn for the Dedicated Schools Grant (DSG) as at the end of September 2022 is a £10.24M cumulative deficit. The deficit is forecast to increase by £0.2M compared with the position as at the end of quarter 1 due to higher demand and an increase in unit costs. The deficit is being driven primarily by the significant year on year increases in Education Health Care Plans (EHCPs) and with higher levels of needs in these plans. The Special Education Needs & Disabilities (SEND) team have an ongoing strategic review of the High Needs activity to manage demand for SEND services. This includes increasing resources for earlier intervention and providing additional places in special schools to reduce the number of pupils being placed in highly expensive placements in independent school settings. An increase in pressures on High Needs services continue as a nationally recognised issue with significant pressures being reported in most local authorities. The increase in High Needs funding in 2022/23 will help mitigate some of the pressure being experienced and further work is being undertaken as part of the DfE programme Delivering Better Value in SEND. The Schools Budget is ring-fenced and presently the DSG deficit is subject to a statutory override which means that the deficit will not impact on the wider council services or council tax payers. The statutory override is in place until March 2023.

	Financial Health Indicators
15.	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 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.
16.	For Treasury Management, rates for new long term borrowing are higher than budgeted and are on an upward trend. However, the higher interest rates are having a positive impact on investment income and this partly mitigates the impact on the revenue budget. A review of the General Fund capital programme has taken place in an effort to reduce the borrowing need in year. For Income Collection, average days sales outstanding and outstanding debt more than 12 months old are below target, however performance has improved since quarter 1. Performance is being impacted by resourcing the implementation of new systems as well as vacancies and staff absence within the debt collection team. Recovery of new debt is being prioritised over old (as more chance of recovery). Planned system improvements are expected to help improve performance. For Creditor Payments, the percentage of valid and undisputed invoices paid within 30 days is below target and performance has deteriorated since quarter 1. A dashboard is being developed to better identify non-compliance and to help target training to improve performance.
	Housing Revenue Account
17.	The Housing Revenue Account is forecast to have a nil variance against the budgeted deficit for the year, no movement from the position reported at quarter 1, as summarised in Table 2 below.

Table 2 – Housing Revenue Account Forecast 2022/23

	Budget Qtr 2 £M	Annual Forecast Qtr 2 £M	Forecast Variance Qtr 2 £M	Forecast Variance Qtr 1 £M	Variance Movement from Qtr 1 £M
Expenditure	77.33	76.71	0.62 F	0.62 F	0.00
Income	(76.41)	(75.79)	0.62 A	0.62 A	0.00
(Surplus) / Deficit for the year	**0.92**	**0.92**	**0.00**	**0.00**	**0.00**

NB Numbers are rounded

18.	Details of significant movements in variances between quarter 1 and quarter 2 are provided in Annex 1.5.
	Collection Fund
19.	Annex 1.6 shows the forecast outturn position for the Collection Fund at quarter 2, with the position summarised in Table 3.

Table 3 – Collection Fund Forecast 2022/23

	Council Tax £M	**Business Rates £M**	**Total £M**
Distribution of previous years' estimated surplus/(contribution towards estimated deficit)	2.92	(24.27)	(21.35)
Net income and expenditure for 2022/23	(0.45)	0.43	(0.02)
(Surplus)/Deficit for the year	**2.47**	**(23.84)**	**(21.38)**
(Surplus)/Deficit brought forward from 2021/22	(2.76)	17.11	14.35
Overall (Surplus)/Deficit Carried Forward	**(0.29)**	**(6.73)**	**(7.03)**
SCC Share of (Surplus)/Deficit	**(0.25)**	**(3.30)**	**(3.55)**
Add: Variance in SCC Government grant income for business rates reliefs for 2022/23		(1.18)	(1.18)
Add: SCC Government grant income shortfall carried forward from 2021/22 due to deferral of CARF scheme, to be repaid to reserves in 2023/24		4.43	4.43
SCC Net Share of (Surplus)/Deficit after Government Grant adjustments to be taken into account in 2023/24 budget setting*	**(0.25)**	**(0.05)**	**(0.29)**

NB Numbers are rounded

*£1.20M of the 2020/21 in-year deficit estimated at January 2021 is already included for 2023/24 in the Medium Term Financial Strategy (final year of the exceptional deficit required to be spread over 3 years).

20. The position on the Collection Fund as a whole is a surplus to be carried forward of £7.03M. Most of the surplus relates to business rates and comprises a £7.16M favourable variance in the 2021/22 outturn deficit (after excluding the £1.99M 2020/21 exceptional deficit being carried forward into 2023/24) and an in-year deficit of £0.43M. The deficit brought forward was lower than had been estimated in January 2022 mainly because reliefs under the COVID Additional Relief Fund (CARF) scheme announced in December 2021 were deferred until 2022/23. The in-year deficit is primarily due to backdated CARF relief (£8.89M), offset by lower retail, hospitality & leisure reliefs (£6.17M) and empty property relief (£2.17M) than estimated when the budget was set. This forecast is based on bills raised for 2022/23 as at the end of September 2022.

21. Both the CARF and retail, hospitality & leisure reliefs are funded by Government grant, so changes to these forecasts impact on the grant income receivable to the General Fund. The table shows the net impact for SCC only as a forecast surplus of £0.05M for business rates, once the variance to Government grant for business rates relief for 2022/23 and the repayment to reserves for the shortfall in CARF grant income carried forward from 2021/22 are factored in.

22.	Significant uncertainty still underpins any estimate relating to the economic effects of high inflation and the cost of living crisis, together with any ongoing effects of the COVID-19 pandemic. As a risk area to the SCC budget, financial trends will be carefully monitored.
	Conclusion and Outlook
23.	Despite actions being taken to help address the financial position a significant forecast deficit remains. The council continues to face severe financial pressures, not only from high demand for services, particularly within Children's & Learning, but also due to the impact of high levels of inflation. The pay award for 2022/23 has yet to be settled and the Local Government Employer's offer of a flat rate increase of £1,925 (equivalent to 5.6% for the council) is being considered by the trade unions. This compares with 2.5% provided for within the budget. Although this additional cost could be accommodated within the contingency budget, this would wipe out the contingency budget for future years.
24.	While the council has sufficient reserves and contingency to meet these financial pressures in the short term, any use of these resources in 2022/23 would reduce the amount available to help address the shortfall between the Council's budgeted expenditure and anticipated funding in future years. The Budget Update report to Cabinet on 8 November 2022 showed a budget shortfall of £28.90M for 2023/24, even after draft savings proposals are taken into account, due to the high demand for services and inflationary pressures currently being experienced.

Annexes

1. General Revenue Fund Forecast Qtr 2 2022/23
2. Treasury Management Qtr 2 2022/23
3. Key Financial Risk Register Qtr 2 2022/23
4. Health Indicators Qtr 2 2022/23
5. HRA Forecast Qtr 2 2022/23
6. Collection Fund Qtr 2 2022/23

OVERALL GENERAL REVENUE FUND FORECAST OUTTURN POSITION FOR 2022/23

Portfolio	Budget Qtr 2 £M	Annual Forecast Qtr 2 £M	Forecast Variance Qtr 2 £M	Forecast Variance Qtr 1 £M	Variance Movement from Qtr 1 £M
Children & Learning	58.60	68.03	9.43 A	9.19 A	0.24 A
Communities& Customer Engagement	5.75	6.45	0.71 A	0.65 A	0.06 A
Economic Development	3.03	4.42	1.38 A	0.80 A	0.58 A
Finance & Change	38.24	40.48	2.24 A	1.19 A	1.04 A
Health, Adults & Leisure	84.67	88.04	3.37 A	2.39 A	0.98 A
Housing & the Green Environment	8.37	8.55	0.18 A	0.03 A	0.15 A
Leader	12.53	12.78	0.26 A	0.64 A	0.38 F
Safer City	1.32	1.39	0.07 A	0.04 A	0.03 A
Transport & District Regeneration	0.83	(0.57)	1.40 F	0.33 A	1.73 F
Total Portfolios	**213.34**	**229.57**	**16.23 A**	**15.26 A**	**0.97 A**
Levies & Contributions	0.09	0.09	0.00	0.00	0.00
Capital Asset Management	10.79	8.19	2.60 F	0.00	2.60 F
Other Expenditure & Income	(31.17)	(31.17)	0.00	0.00	0.00
Net Revenue Expenditure	**193.05**	**206.68**	**13.63 A**	**15.26 A**	**1.63 F**
Council Tax	(111.24)	(111.24)	0.00	0.00	0.00
Business Rates	(32.78)	(32.78	0.00	0.00	0.00
Non-Specific Government Grants	(49.03)	(49.05)	0.02 F	0.02 F	0.00
Total Financing	**(193.05)**	**(193.07)**	**0.02 F**	**0.02 F**	**0.00**
(Surplus)/Deficit	**0.00**	**13.61**	**13.61 A**	**15.24 A**	**1.63 F**
Further in-year savings agreed	0.00	(4.02)	4.02 F	0.00	4.02 F
(Surplus)/Deficit after in-year savings	**0.00**	**9.59**	**9.59 A**	**15.24 A**	**5.65 F**

NB Numbers are rounded

EXPLANATIONS BY PORTFOLIO

1. CHILDREN & LEARNING PORTFOLIO

KEY REVENUE ISSUES – QUARTER 2 2022/23

The Portfolio is currently forecast to have a deficit of **£9.43M**, which represents a percentage variance against budget of 16.1**%.** The Portfolio forecast variance has moved adversely by **£0.24M** from the position reported at quarter 1.

	Forecast Variance Qtr 2 £M	**Forecast Variance Qtr 1 £M**	**Movement from Qtr 1 £M**	**% of budget**
Portfolio Forecast Outturn	**9.43 A**	**9.19 A**	**0.24 A**	**16.1**

A summary of the Portfolio forecast variance and movement since quarter 1 is shown in the table below:

Service Area	**Forecast Variance Qtr 2 £M**	**Forecast Variance Qtr 1 £M**	**Variance Movement from Qtr 1 £M**
Divisional Management & Legal	0.22 A	0.21 A	0.01 A
Education - Home to school transport and property management	1.13 A	1.58 A	0.45 F
Education - Services for schools, High Needs	0.21 A	0.18 A	0.03 A
Pathways Through Care	5.57 A	5.63 A	0.06 F
Young Peoples Service	0.10 A	0.00	0.10 A
Quality Assurance Business Unit	0.33 A	0.00	0.33 A
Safeguarding	1.81 A	1.55 A	0.26 A
Other	0.06 A	0.05 A	0.01 A
Total	**9.43 A**	**9.19 A**	**0.24 A**

The SIGNIFICANT movements between quarter 1 and quarter 2 for the Portfolio are:

Service Area	Movement in Forecast Variance Between Qtr 1 and Qtr 2 £M	Explanation:
Education - Home to school transport and property management	0.45 F	As at Quarter 2 the favourable movement of £0.45M since Quarter 1 is largely as a result of work to identify potential income due to the Council.
Quality Assurance Business Unit	0.33 A	As at Quarter 2 there is an adverse variance movement of £0.33M since Quarter 1 due to additional agency staff required in the service. This primarily relates to the need for Independent Reviewing Officers (high numbers of children in care combined with government guidance about Independent Reviewing Officer caseloads) and also Child Protection Chairs, in particular to ensure that we have sufficient capacity to chair Risk of Harm Outside the Home (ROTH) conferences. In Workforce Development there is a non-negotiable requirement to provide ring-fenced support to 17 Newly Qualified Social Workers during their first year. A business case has been submitted to convert these essential posts to fixed term contracts, at a significantly lower cost than agency staff.
Safeguarding	0.26 A	As at Quarter 2 there is an adverse variance movement of £0.26M since Quarter 1 relating to the high number of inexperienced permanent staff within the service and the need to hold agency staff whilst gradually building up their caseloads. The service now has 90% permanent staffing which is a significant improvement, but there is a need to maintain a level of experience via agency workers to ensure that children receive the service they need. Of the 17 Newly Qualified Social Workers (NQSW) across the service most were not registered until August/September. This meant that they could not hold statutory cases. In addition, there have been delays in the arrival of some South African social workers and some have not yet arrived. This has affected case holding space within the service. As case holding for South African SWs and NQSWs increases, less additional agency will be required.

2. COMMUNTIES & CUSTOMER ENGAGEMENT PORTFOLIO

KEY REVENUE ISSUES – QUARTER 2 2022/23

The Portfolio is currently forecast to have a deficit of **£0.71M**, which represents a percentage variance against budget of 12.3**%.** The Portfolio forecast variance has moved adversely by **£0.06M** from the position reported at quarter 1.

	Forecast Variance Qtr 2 £M	Forecast Variance Qtr 1 £M	Movement from Qtr 1 £M	% of budget
Portfolio Forecast Outturn	**0.71 A**	**0.65 A**	**0.06 A**	**12.3%**

A summary of the Portfolio forecast variance and movement since quarter 1 is shown in the table below:

Service Area	Forecast Variance Qtr 2 £M	Forecast Variance Qtr 1 £M	Variance Movement from Qtr 1 £M
Bereavement Service	0.65 A	0.60 A	0.05 A
Libraries	0.03 A	0.05 A	0.02 F
Stronger Communities	0.03 A	0.00	0.03 A
Other	0.00	0.00	0.00
Total	**0.71 A**	**0.65 A**	**0.06 A**

There were no SIGNIFICANT movements between quarter 1 and quarter 2 for the Portfolio.

3. ECONOMIC DEVELOPMENT PORTFOLIO

KEY REVENUE ISSUES – QUARTER 2 2022/23

The Portfolio is currently forecast to have a deficit of **£1.38M**, which represents a percentage variance against budget of 45.5**%.** The Portfolio forecast variance has moved adversely by **£0.58M** from the position reported at quarter 1.

	Forecast Variance Qtr 2 £M	**Forecast Variance Qtr 1 £M**	**Movement from Qtr 1 £M**	**% of budget**
Portfolio Forecast Outturn	**1.38 A**	**0.80 A**	**0.58 A**	**45.5%**

A summary of the Portfolio forecast variance and movement since quarter 1 is shown in the table below:

Service Area	**Forecast Variance Qtr 2 £M**	**Forecast Variance Qtr 1 £M**	**Variance Movement from Qtr 1 £M**
Facilities Management	0.68 A	0.45 A	0.23 A
Central Repairs & Maintenance	0.24 A	0.00	0.24 A
Sustainability	0.15 A	0.00	0.15 A
Planning	0.14 A	0.08 A	0.06 A
Economic Development	0.08 A	0.05 A	0.03 A
Property Services	0.06 A	0.00	0.06 A
Property Portfolio Management	0.03 A	0.22 A	0.19 F
Total	**1.38 A**	**0.80 A**	**0.58 A**

The SIGNIFICANT movements between quarter 1 and quarter 2 for the Portfolio are:

Service Area	Movement in Forecast Variance Between Qtr 1 and Qtr 2 £M	Explanation:
Facilities Management	0.23 A	The adverse pressure is due to energy costs for administrative buildings including electricity and geothermal costs. The movement in the quarter is due to updated market rates increasing the forecast.
Central Repairs & Maintenance	0.24 A	The adverse movement in the quarter is due to the estimated revenue costs associated with the rationalisation of administrative buildings.

4. FINANCE & CHANGE PORTFOLIO

KEY REVENUE ISSUES – QUARTER 2 2022/23

The Portfolio is currently forecast to have a deficit of **£2.24M**, which represents a percentage variance against budget of 5.8%**.** The Portfolio forecast variance has moved adversely by **£1.04M** from the position reported at quarter 1.

	Forecast Variance Qtr 2 £M	Forecast Variance Qtr 1 £M	Movement from Qtr 1 £M	% of budget
Portfolio Forecast Outturn	**2.24 A**	**1.19 A**	**1.04 A**	**5.8%**

A summary of the Portfolio forecast variance and movement since quarter 1 is shown in the table below:

Service Area	Forecast Variance Qtr 2 £M	Forecast Variance Qtr 1 £M	Variance Movement from Qtr 1 £M
Accounts Payable	0.15 A	0.00	0.15 A
Business Support	0.27 A	0.25 A	0.02 A
City Services - Waste Operations	0.50 F	0.06 F	0.44 F
Commercialisation	0.23 A	0.00	0.23 A
Corporate Finance	0.11 A	0.00	0.11 A
Highways Contracts	0.05 F	0.37 A	0.42 F
IT Services	0.73 A	0.70 A	0.03 A
Local Taxation & Benefits	0.90 A	0.00	0.90 A
Supplier Management	0.42 A	0.00	0.42 A
Other	0.02 F	0.07 F	0.05 A
Total	**2.24 A**	**1.19 A**	**1.04 A**

The SIGNIFICANT movements between quarter 1 and quarter 2 for the Portfolio are:

Service Area	Movement in Forecast Variance Between Qtr 1 and Qtr 2 £M	Explanation:
City Services - Waste Operations	0.44 F	The favourable movement in quarter 2 is predominately from a change in how the Fleet recharge rate for older vehicles is calculated to better reflect the whole life costs of the vehicles. There is a corresponding adverse variance in income in the Fleet Service.
Commercialisation	0.23 A	The existing Commercialisation savings target is £0.56M for this service area. Work has started to review fees and charges across all council services which is forecast to achieve additional income of £0.27M against the Commercialisation efficiency target. This is in part offset by the saving of £0.06M from the Commercialisation Manager post being vacant. The review of efficiency targets was undertaken in Q2.
Highways Contracts	0.42 F	The favourable movement in the forecast of £0.42M for this budget is as a result of the renegotiation of the PFI contract resulting in a favourable General Fund saving of £0.85M in Q2. This saving is offset by an increase in the forecast adverse position in the electricity costs budget for street lighting of £0.43M.
Local Taxation & Benefits	0.90 A	There is an estimated shortfall of £0.90M in the income budget for charges for council tax court costs. This budget will need to be reviewed as part of the forthcoming budget process. The court costs income budget was reviewed and assessed in Q2.
Supplier Management	0.42 A	There is a forecast adverse variance of £0.42M for the Supplier Management Service. The service is forecast to achieve £0.43M of their overall efficiency savings targets of £0.95M in the current financial year leaving an adverse variance of £0.52M. However, savings within the staffing budget due to staff vacancies are currently forecast to be £0.1M in the current year which reduces the overall adverse variance for the service to £0.42M. The review of efficiency targets was undertaken in Q2.

5. HEALTH, ADULTS & LEISURE PORTFOLIO

KEY REVENUE ISSUES – QUARTER 2 2022/23

The Portfolio is currently forecast to have a deficit of **£3.37M**, which represents a percentage adverse variance against budget of 4.0**%.** The Portfolio forecast variance has moved adversely by **£0.98M** from the position reported at quarter 1

	Forecast Variance Qtr 2 £M	**Forecast Variance Qtr 1 £M**	**Movement from Qtr 1 £M**	**% of budget**
Portfolio Forecast Outturn	**3.37 A**	**2.39 A**	**0.98 A**	**4.0%**

A summary of the Portfolio forecast variance and movement since quarter 1 is shown in the table below:

Service Area	**Forecast Variance Quarter 2 £M**	**Forecast Variance Quarter 1 £M**	**Variance Movement from Qtr 1 £M**
Adults - Adult Services Management	0.32 F	0.10 F	0.22 F
Adults - Long Term	1.21 A	1.23 A	0.02 F
Adults - Provider Services	0.28 A	0.08 A	0.20 A
Adults - Reablement & Hospital Discharge	0.66 A	0.22 A	0.44 A
Adults - Safeguarding Adult Mental Health & Out Of Hours	0.88 A	0.25 A	0.63 A
ICU - Provider Relationships	0.63 A	0.65 A	0.02 F
ICU - System Redesign	0.04 A	0.06 A	0.02 F
Total	**3.37 A**	**2.39 A**	**0.98 A**

SIGNIFICANT movements between quarter 1 and quarter 2 for the Portfolio are:

Service Area	Movement in Forecast Variance Between Qtr 1 and Qtr 2 £M	Explanation
Adults - Safeguarding Adult Mental Health & Out of Hours	0.63 A	As at Quarter 2 there is a £0.63M adverse variance movement since Quarter 1 due to a net increase in the numbers of new clients and increase in cost of existing client packages for residential, nursing and direct payments.
Adults - Reablement & Hospital Discharge	0.44 A	As at Quarter 2 there is a £0.44M adverse variance movement since Quarter 1 due to additional costs of Discharge to Assess Care Act Assessments contract outsourced to an external provider, 50% of costs shared with the Clinical Commissioning Group.
Adults - Adult Services Management	0.22 F	As at Quarter 2 there is a £0.22M favourable variance movement since Quarter 1 due to a review of learning and development spend mainly taking into account essential spend criteria updates amounting to a £0.10M favourable variance, and a review of resources with some posts no longer being recruited to in 2022/23 amounting to a £0.12M favourable variance.
Adults - Provider Services	0.20 A	As at Quarter 2 there is a £0.20M adverse variance movement since Quarter 1 due to a forecast increase of overtime and external agency staffing at Kentish Rd and Holcroft House.

6. HOUSING & THE GREEN ENVIRONMENT PORTFOLIO

KEY REVENUE ISSUES – QUARTER 2 2022/23

The Portfolio is currently forecast to have a deficit of **£0.18M**, which represents a percentage variance against budget of 2.2**%.** The Portfolio forecast variance has moved adversely by **£0.15M** from the position reported at quarter 1.

	Forecast Variance Qtr 2 £M	Forecast Variance Qtr 1 £M	Movement from Qtr 1 £M	% of budget
Portfolio Forecast Outturn	**0.18 A**	**0.03 A**	**0.15 A**	**2.2%**

A summary of the Portfolio forecast variance and movement since quarter 1 is shown in the table below:

Service Area	Forecast Variance Qtr 2 £M	Forecast Variance Qtr 1 £M	Variance Movement from Qtr 1 £M
Air Quality Monitoring	0.08 F	0.00	0.08 F
City Services – Commercial Services	0.03 F	0.07 F	0.04 A
City Services – District Areas	0.21 A	0.27 A	0.06 F
City Services – Trees & Ecology	0.08 F	0.09 F	0.01 A
City Services – Trading areas (Fleet & Landscapes)	1.27 A	0.07 F	1.34 A
Flood Risk Management	0.08 F	0.00	0.08 F
Housing Needs	1.00 F	0.00	1.00 F
Other	0.02 F	0.01 F	0.01 F
Total	**0.18 A**	**0.03 A**	**0.15 A**

The SIGNIFICANT movements between quarter 1 and quarter 2 for the Portfolio are:

Service Area	Movement in Forecast Variance Between Qtr 1 and Qtr 2 £M	Explanation:
City Services – Trading (Fleet & Landscapes)	1.34 A	There is an adverse movement in the forecast of £1.34M for the Fleet service following a change in how older vehicles are recharged across the authority. There are favourable variances across other services and in the Housing Revenue Account to offset the adverse variance in Fleet.
Housing Needs	1.00 F	The favourable variance of £1M relates to the anticipated claim of £1M funding for the Homes for Ukraine scheme, to cover costs incurred.

7. LEADER PORTFOLIO

KEY REVENUE ISSUES – QUARTER 2 2022/23

The Portfolio is currently forecast to have a deficit of **£0.26M**, which represents a percentage variance against budget of **2.04%.** The Portfolio forecast variance has moved favourably by **£0.38M** from the position reported at quarter 1.

	Forecast Variance Qtr 2 £M	**Forecast Variance Qtr 1 £M**	**Movement from Qtr 1 £M**	**% of budget**
Portfolio Forecast Outturn	**0.26 A**	**0.64 A**	**0.38 F**	**2.04%**

A summary of the Portfolio forecast variance is shown in the table below:

Service Area	**Forecast Variance Qtr 2 £M**	**Forecast Variance Qtr 1 £M**	**Variance Movement from Qtr 1 £M**
Cultural Services	0.31 A	0.54 A	0.23 F
Registration of Electors and Elections Costs	0.06 A	0.00	0.06 A
Strategic Management of the Council	0.15 F	0.00	0.15 F
Other	0.04 A	0.10 A	0.06 F
Total	**0.26 A**	**0.64 A**	**0.38 F**

The SIGNIFICANT movements between quarter 1 and quarter 2 for the Portfolio are:

Service Area	Movement in Forecast Variance Between Qtr 1 and Qtr 2 £M	Explanation
Cultural Services	0.23 F	The favourable movement in the forecast variance relates to a reduction in the pressure of staffing costs to run the venues of £0.09M as this has been offset by ongoing vacancies; £0.12M of surplus from reduced expenditure due to the essential spend only restrictions; and £0.02M reduction in the final spend on the Queen’s Commonwealth Baton Relay compared to the estimate last forecast.

8. SAFER CITY PORTFOLIO

KEY REVENUE ISSUES – QUARTER 2 2022/23

The Portfolio is currently forecast to have a deficit of **£0.07M**, which represents a percentage variance against budget of 5.3**%.** The Portfolio forecast variance has moved adversely by **£0.03M** from the position reported at quarter 1.

	Forecast Variance Qtr 2 £M	**Forecast Variance Qtr 1 £M**	**Movement from Qtr 1 £M**	**% of budget**
Portfolio Forecast Outturn	**0.07 A**	**0.04 A**	**0.03 A**	**5.3%**

A summary of the Portfolio forecast variance and movement since quarter 1 is shown in the table below:

Service Area	**Forecast Variance Qtr 2 £M**	**Forecast Variance Qtr 1 £M**	**Variance Movement from Qtr 1 £M**
Community Safety	0.08 F	0.00	0.08 F
Port Health & Trading Standards	0.21 A	0.04 A	0.17 A
Environmental Health	0.06 F	0.00	0.06 F
Total	**0.07 A**	**0.04 A**	**0.03 A**

There were no SIGNIFICANT movements between quarter 1 and quarter 2 for the Portfolio.

9. TRANSPORT & DISTRICT REGENERATION PORTFOLIO

KEY REVENUE ISSUES – QUARTER 2 2022/23

The Portfolio is currently forecast to have a surplus of **£1.40M**, which represents a percentage variance against budget of 168.7**%.** The Portfolio forecast variance has moved favourably by **£1.73M** from the position reported at quarter 1.

	Forecast Variance Qtr 2 £M	**Forecast Variance Qtr 1 £M**	**Movement from Qtr 1 £M**	**% of budget**
Portfolio Forecast Outturn	**1.40 F**	**0.33 A**	**1.73 F**	**168.7%**

A summary of the Portfolio forecast variance and movement since quarter 1 is shown in the table below:

Service Area	**Forecast Variance Qtr 2 £M**	**Forecast Variance Qtr 1 £M**	**Variance Movement from Qtr 1 £M**
Parking & Itchen Bridge	0.24 A	0.34 A	0.10 F
Transportation	1.64 F	0.01 F	1.63 F
Total	**1.40 F**	**0.33 A**	**1.73 F**

The SIGNIFICANT movements between quarter 1 and quarter 2 for the Portfolio are:

Service Area	Movement in Forecast Variance Between Qtr 1 and Qtr 2 £M	Explanation:
Transportation	1.63 F	The movement in the forecast represents £0.18M from salary budget surpluses due to posts being budgeted at the top of the grade combined with a high level of vacancies in the School Crossing Patrol service. £0.22M relates to a surplus in funding for revenue related posts supporting the Transforming Cities Fund capital project. £0.19M relates to unbudgeted grant income and the e-scooter revenue share. £1.03M relates to a surplus due to a decline in concessionary fares as a result of slow COVID recovery, this has been offset by costs for the £1 evening bus fare and the 5 for £5 subsidies both schemes aimed at kick starting the city's economy. And £0.01M of surplus from reduced expenditure due to the essential spend only restrictions.

10. NON-PORTFOLIO EXPENDITURE & INCOME

KEY REVENUE ISSUES – QUARTER 2 2022/23

Non-Portfolio budgets are currently forecast to have a surplus of **£2.62M**, which represents a percentage variance against budget of 1.2%. The forecast variance has moved favourably by £2.60M from the position reported at quarter 1.

	Forecast Variance Qtr 2 £M	**Forecast Variance Qtr 1 £M**	**Movement from Qtr 1 £M**	**% of budget**
Non-Portfolio Forecast Outturn	**2.62 F**	**0.02 F**	**2.62 F**	**1.2%**

A summary of the Non-Portfolio budgets forecast variance and movement since quarter 1 is shown in the table below:

Service Area	**Forecast Variance Qtr 2 £M**	**Forecast Variance Qtr 1 £M**	**Variance Movement from Qtr 1 £M**
Levies & Contributions	0.00	0.00	0.00
Capital Asset Management	2.60 F	0.00	2.60 F
Other Expenditure & Income	0.00	0.00	0.00
Council Tax	0.00	0.00	0.00
Business Rates	0.00	0.00	0.00
Non-Specific Government Grants & Other Funding	0.02 F	0.02 F	0.00
Total	**2.62 F**	**0.02 F**	**2.60 F**

The SIGNIFICANT movements between quarter 1 and quarter 2 for the Non-Portfolio budgets are:

Service Area	Movement in Forecast Variance Between Qtr 1 and Qtr 2 £M	Explanation:
Capital Asset Management	2.60 F	Forecast reduction in capital financing costs following review of capital programme

	Treasury Management
	Borrowing and Investments
1.	The table below shows the year's opening balance of borrowing and investments, current levels and those predicted for year-end. Forecast borrowing is based on the forecast capital programme and will be subject to review during the year. The Authority maintained its strategy of keeping borrowing and investments below their underlying levels in order to reduce risk and make a net saving.
2.	

	31-Mar-22 Actual £M	31-Mar-22 Average Yield / Rate %	30-Sep-22 Actual £M	30-Sep-22 Average Yield / Rate %	31-Mar-23 Forecast £M	31-Mar-23 Forecast Average %
Long Term Borrowing						
Public Works Loan	246.30	2.88	252.74	2.75	279.99	2.91
LOBO Loans from Banks	9.00	4.89	9.00	4.86	9.00	4.87
	255.30	**2.95**	**261.74**	**2.88**	**288.99**	**2.82**
Short Term Borrowing						
Other Local Authorities	0.00	0.00	0.00	0.00	0.00	4.25
Other	0.36		0.44	1.84	0.44	1.60
Total External Borrowing	**255.66**	**0.00**	**262.18**	**2.86**	**289.43**	**2.78**
Other Long Term Liabilities						
PFI Schemes	47.52	9.01	45.95	10.20	44.37	10.20
Deferred Debt Charges (HCC)	13.10	2.66	12.92	2.56	12.73	2.56
Total Gross External Debt	**316.28**	**3.87**	**321.04**	**4.08**	**346.53**	**3.89**
Investments:						
Managed In-House						
Government & Local Authority	0.00	0.00	(22.44)	1.80		
Cash (Instant access)	(54.50)	0.51	(16.82)	2.12	(20.00)	5.00
Cash (Notice Account)	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Bonds	(1.06)	5.27	(1.01)	5.27	(1.01)	5.27
Managed Externally						
Pooled Funds (CCLA) & Shares	(27.25)	3.81	(27.00)	3.76	(27.00)	3.00
Total Investments	**(107.22)**	**3.46**	**(67.27)**	**3.44**	**(48.01)**	**3.88**
Net Debt	**209.06**		**253.77**		**298.52**	

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 to £298.52M for the year. During quarter 2 a review of the capital programme was undertaken which has resulted in a reduction in borrowing overall and a re-profiling of schemes to move borrowing into later years.
4.	The interest cost of financing the council's long term and short term loan debt is charged to the general fund revenue account and is detailed below together with a summary of performance to date. As detailed below rates for new long term borrowing are higher than budgeted and are on an upward trend. However, the higher interest rates are having a positive impact on investment income, and this somewhat mitigates the impact on the revenue budget.

	Borrowing
5.	The forecast cost of financing the council's loan debt is £16.71M of which £5.49M 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.
6.	Over the April-September period short term PWLB rates rose dramatically, particular in late September after the Chancellor's 'mini-budget' prompted a fall in sterling and rise in market interest rate expectations. Interest rates rose by over 2% during the period in both the long and short term. As an indication the 5-year maturity certainty rate rose from 2.30% on 1st April to 5.09% on 30th September; over the same period the 30-year maturity certainty rate rose from 2.63% to 4.68%. Although interest rates across the board have risen, short-term borrowing from other local authorities remains at lower interest rates than long term borrowing. We currently do not have any short term debt, we anticipate borrowing short term before year end to replace maturing long term debt, expected reduction in reserves and to fund the 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.
7.	The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.
8.	As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
9.	The Authority has an increasing CFR due to the capital programme and after future debt maturities currently has an estimated borrowing requirement of £30.73M for the year, as determined by the Liability Benchmark which considers capital spend, maturing debt, usable reserves and working capital. Rates continue on an upward trajectory and are currently above the rate used for setting budget. Further borrowing will be required during the year and rates will be monitored to determine the appropriate time; current advice is to take short term borrowing when required.

	Investment
10.	The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves. During the year investment balances have ranged between £109.37M and £66.45M and are currently £67.27M but are expected to reduce to £48M by year end. The increases in Bank Rate over the period under review, and with the prospect of more increases to come, short-dated cash rates, rose by around 1.5% for overnight/7-day maturities and by nearly 3.5% for 9-12 month maturities. By end September, the rates on DMADF deposits ranged between 1.85% (overnight) and 3.5% (6 months). The return on the Council's sterling low volatility net asset value (LVNAV) Money Market Funds ranged between 0.48% - 0.54% in early April and between 1.95% and 2.13% at the end of September Forecast income is now £1.63M, £0.61M higher than originally budgeted.
	Investment Performance
11.	The council's advisors undertake quarterly investment benchmarking across its client base. We previously had a more diversified portfolio and at higher interest rates than the average as a result of moving into the bond programme earlier than most clients, but there is now more competition for bonds from both government bodies and other local authorities, so opportunities to replace maturing bonds are limited and we have seen a fall in suitable instruments. With this in mind, and the changes to Prudential code to only borrow when cash flows dictate, our investments primarily now consist of a previous long-term investment in property funds and short term investments for cash flow purposes.
12.	Our current investments in bonds reduced from £3M to £1M following maturities in 2021/22 and we maintained the property funds at £27M, with all other cash being placed in short term deposits as shown in table in paragraph 2.
13.	As detailed in paragraph 10 our cash balances have continued to be higher than forecast but at £39.26M have reduced by £17.86M since June when we held £57.12M. Our target is to reduce this to a £20M working balance to reduce borrowing and therefore net interest costs but this will be dependent on actual capital spend and movement in balances.
14.	Investments managed internally are currently averaging a return of 1.91% which is higher than the average unitary authority at 1.74% whilst maintaining the same credit rating at AA-. Total income returns at 2.74% is also higher than the average for both unitary (2.13%) and LA's (2.05%), this is primarily due to historic investment in EIB bonds which return 5.27%, although on a small balance of £1M, since maturities cannot be replaced at the same level. We hold 44% of our investments in strategic funds which offer higher return over the long term as detailed in paragraphs 15 to 18 below. This is higher than the average but in line with our strategy. In addition, due to the increase in the capital value of our external funds of +10.72% our total investment return at 7.42% is significantly higher than the average LA's at 1.47% and the average unitary at 2.27% across Arlingclose's client base, but as previously reported it is the income return that is the driver to invest.

	External Managed investments
15.	The council has invested £27M in property funds as an alternative to buying property directly. As previously reported these funds offer the potential for enhanced returns over the longer term but may be more volatile in the shorter term and are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments.
16.	Because these funds have no defined maturity date but are usually available for withdrawal after a notice period (90 days), their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed.
17.	Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. Considering their performance over the long-term and the Authority's latest cash flow forecasts, investment in these funds has been maintained.
18.	The market improved since year end when the value was reported as £30.89M and this improvement continue into the first quarter when the value was reported at £32.51M. The has now fallen back to £31.13M a decrease of £1.38M since June but is still £4.13M above the initial investment of £27M. The dividend for April to June was £0.26M and has been estimated at £0.30M for July to September, 3.98% against the original investment, this is in line with 2021/22. If rates remain at this level the total forecast dividend for the year is £1.07M.
	Financial Review and Outlook
19.	A summary of the external factors, which sets the background for Treasury, as provided by the council's treasury advisors, Arlingclose Ltd, is summarised below.

Arlingclose's Economic Outlook for the remainder of 2022/23 (based on 26th September 2022 interest rate forecast)

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.25	4.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.25	3.75	3.25
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

20.	The economic background has changed dramatically since last reported in June and there is further increased uncertainty. For contrast Arlingclose's forecast for June is included.

Arlingclose's Economic Outlook for the remainder of 2022/23 (based on the June 2022 interest rate forecast)

	Current	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Arlingclose Central Case	1.25	1.75	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.00	2.00	1.75	1.75
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75

21.	The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, for September 2022 is based on the following Underlying Assumptions:

	• Arlingclose expects Bank Rate to rise further during 2022/23 to reach 5% by the end of the year. • The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages. • The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year. • This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024. • Gilt yields will face further upward pressure in the short term due to lower confidence in UK fiscal policy, higher inflation expectations and asset sales by the BoE. Given the recent sharp rises in gilt yields, the risks are now broadly balanced to either side. Over the longer term, gilt yields are forecast to fall slightly over the forecast period.
22.	Monetary policymakers are behind the curve having only raised rates by 50bps in September. This was before the "Mini-Budget", which was poorly received by the markets, triggered a rout in gilts with a huge spike in yields and a further fall in sterling. In a shift from recent trends, the focus now is perceived to be on supporting sterling whilst also focusing on subduing high inflation. There is now an increased possibility of a special Bank of England MPC meeting to raise rates to support the currency. Followed by a more forceful stance over concerns on the looser fiscal outlook. The MPC is therefore likely to raise Bank Rate higher than would otherwise have been necessary given already declining demand. A prolonged economic downturn could ensue. Uncertainty on the path of interest rates has increased dramatically due to the possible risk from unknowns which could include for instance another Conservative leadership contest, a general election, or further tax changes including implementing windfall taxes. The government's blank cheque approach to energy price caps, combined with international energy markets priced in dollars, presents a fiscal mismatch that has contributed to significant decline in sterling and sharp rises in gilt yields which will feed through to consumers' loans and mortgages and business funding costs. UK government policy has mitigated some of the expected rise in energy inflation for households and businesses flattening the peak for CPI, whilst extending the duration of elevated CPI. Continued currency weakness could add inflationary pressure. The UK economy already appears to be in recession, with business activity and household spending falling. The short- to medium-term outlook for the UK economy is relatively bleak. Global bond yields have jumped as investors focus on higher and stickier US policy rates. The rise in UK government bond yields has been sharper, due to both an apparent decline in investor confidence and a rise in interest rate expectations, following the UK government's shift to borrow to loosen fiscal policy. Gilt yields will remain higher unless the government's plans are perceived to be fiscally responsible. The housing market impact of increases in the Base Rate could act as a "circuit breaker" which stops rates rising much beyond 5.0%, but this remains an uncertainty.

	Economic background
23.	The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the ‘fiscal event’ increased uncertainty further. The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers’ cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China’s zero-Covid policy. Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions. UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024. The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and –2.8% for regular pay. With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of –44 in August, down –41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England. The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August’s rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. the September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected. On 23rd September the UK government, following a change of leadership, announced a raft of measures in a ‘mini budget’, loosening fiscal policy with a view to boosting the UK’s trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the

	purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day. Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market. After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July and September, taking policy rates to a range of 3% - 3.25%. Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from –0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.
	<u>Financial markets</u>
24.	Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling. Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields. Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.
	<u>Credit background</u>
25.	Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period. Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

	Revision to CIPFA Codes
26.	CIPFA published revised Prudential and Treasury Management Codes in December 2021. The Prudential Code took immediate effect although detailed reporting requirements could be deferred until the 2023/24 financial year and have not been included in this report whilst we are reviewing the impact of the proposed changes.
27.	The main changes or expected changes from previous codes include: • Additional reporting requirements for the Capital Strategy. • For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the Authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services). • Forward looking prudential code indicators must be monitored and reported to members at least quarterly. • A new indicator for net income from commercial and service investments to net revenue stream. • Inclusion of the liability benchmark as a treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the authority's full debt maturity profile. • Excluding investment income from the definition of financing costs. • Credit and counterparty policies should set out the Authority's policy and practices relating to Environmental, Social and Governance (ESG) investment considerations. • Additional focus on the knowledge and skills of officers and elected members involved in decision making
28.	Early indications are that future long-term investments, such as CCLA will be prohibited but we will not need to unwind existing investments.

KEY FINANCIAL RISKS

The following table identifies the key financial risks to the council's financial position over the short to medium term together with a summary of the mitigating actions in place and planned. These financial risks are reflected in the assessment of the adequacy of estimates and reserves. The assessment of risk is based on the following risk scoring criteria:

LIKELIHOOD (Probability)	
A - Almost certain > 95%	Is expected to occur in most circumstances
B - Likely	Will probably occur in most circumstances
C - Possible 50%	Might occur at some time
D - Unlikely	Could occur at some time
E - Very Unlikely < 5%	May only occur in exceptional circumstances

IMPACT	5 - Minor	4 - Moderate	3 - Significant	2- Major	1- Extreme
Service delivery / key priorities	No noticeable effect	Some temporary disruption to a single service area/ delay in delivery of one of the council's objectives	Regular disruption to one or more services/ a number of corporate objectives would be delayed or not delivered	Severe service disruption on a directorate level / many corporate priorities delayed or not delivered	Unable to deliver most priorities / statutory duties not delivered
Financial Impact	Loss or loss of income < £10k	Loss or loss of income £10k - £499k	Loss or loss of income £500k - £4.99m	Loss or loss of income £5m < £9.99m	Loss or loss of income >£10m
Reputation	Internal review	Internal scrutiny required to prevent escalation	Local media interest. Scrutiny by external committee or body	Intense public, and media scrutiny	Public Inquiry or adverse national media attention

- **Robustness of estimates**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FE1.	**Interest rates** are underestimated.	Likely	Major	*• Prudent estimates are made around future rates when costing the financing of the capital programme.* *• Market intelligence provided by Treasury Management advisors.* *• Treasury Management Strategy is aligned with CIPFA Code and DLUHC Guidance re investing funds prudently and having regard to the security and liquidity of its investments before seeking the highest rate of return.*	Possible	Significant
FE2.	**Existing fees and charges:** Projected levels of income within the period are not achieved and/or maintained.	Possible	Significant	*• Fees and charges have been reviewed as part of the business planning process. If there are 'in year' shortfalls these form part of the budget monitoring processes.*	Possible	Significant
FE3.	**New income streams:** Projected levels of income within the period are not achieved.	Possible	Significant	*• Income generating activity has been identified as part of current approved savings proposals. There is a risk that in light of the economic backdrop that these levels of income will not be achieved.* *• Higher risk as it is based on new sources of income.*	Possible	Significant
FE4.	**Volatility of Business Rates funding** given the uncertainty around impact of successful appeals.	Likely	Major	*• The appeals provision has been reviewed and updated in light of known current appeals/challenges and potential threats and will be reviewed on a regular basis.* *• Appeals can be backdated and as a consequence of this the Council has set aside a provision to deal with this element of the financial impact.* *• The appeals window for the 2017 rating list will be closed on 31 March 2023 and there may be an increase in the number of cases lodged as the deadline approaches.* *• Legislation has been enacted to prevent appeals as a consequence of measures to control COVID-19. Billing authorities were allocated a share of a £1.5Bn COVID-19 Additional Relief Fund for 2021/22 to award discretionary relief to those business ineligible for existing support linked to business rates.*	Possible	Significant

- **Robustness of estimates**

	Key Financial Risk	INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FE5.	**Increase in demand led spending pressures** (including impact of Welfare Reform, social care, safeguarding) over and above the current budget provision.	Possible	Extreme	*• Annual budget setting process developed in consultation with service managers • Monitoring of capital (quarterly) and revenue (monthly) budgets, reported to EMB and Cabinet (Quarterly). • Action plans to address any significant in year budget variances are agreed with EMB with the status of the agreed actions reported to EMB on a monthly basis • Destination 22 action plan intended to reduce the number of Looked After Children*	Possible	Major
FE6a.	Third party provider costs will increase as a result of the introduction of the **National Living Wage**	Almost certain	Significant	*• As each contract is procured any impact of this will need to be assessed and addressed to ensure services are procured within budget.*	Possible	Significant
FE6b.	**Third party provider costs increase** as result of SCC having to 'step in' in the event of potential provider failure (social care providers)	Unlikely	Significant	*• ICU contract monitoring arrangements and general market oversight and intelligence • Market Sustainability and Fair Cost of Care grant funding has been received in 2022/23, at least 75% of which is to be used to increase fee rates (if rates are below the fair cost of care)*	Very Unlikely	Moderate
FE7.	**Legal challenge to savings proposals** that could result in the proposal being either discontinued or revised.	Possible	Significant	*• Robust budget consultation process in place for any service redesign proposals.*	Unlikely	Moderate
FE8.	**Pressure on returns from investment properties** in both the short and longer term.	Possible	Major	*• There is a full and robust process around the financial and legal analysis of the individual investments. • Investments are diversified between sectors. • No current plans to expand the Property Investment Fund*	Possible	Significant
FE9.	**Voluntary sector** is either unwilling or unable to support the delivery of certain services or activities	Possible	Major	*• Review the overall expectation and co-ordination of the services required of the voluntary sector. • Consideration is given to this risk in deciding whether to design services around the voluntary sector*	Possible	Significant
FE10.	The council's **service delivery partners** seek to exit an agreement or are no longer able to deliver the required service or the council seeks to reach an exit agreement.	Likely	Major	*• Central Contracts Team monitors and work closely with the council's significant service delivery partners. • Contractual obligations on both parties that set out the respective roles and responsibilities.*	Possible	Significant
FE11.	The Council may receive reduced funding if Government make changes to the Local Government funding mechanism. Such changes may include removing the ring-fence for Public Health Grant and rolling it in to general funding.	Possible	Major	*• The Council will plan for any proposed changes through the Medium Term Financial Strategy process.*	Possible	Major

- **Adequacy of proposed financial reserves**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FR1.	**Business Rate Retention & Council Tax Growth -** the council fails to collect, retain and grow business rate income	Possible	Major	*• For the business rates multiplier, the assumption built into the MTFS is based on an annualised CPI Rate reflecting the uplift set by government. The government has frozen the business rate multiplier for 2022/23, however councils will be compensated for this via grants.* *• The MTFS includes assumptions on growth which have been reviewed in conjunction with the Development & Growth team and Business rates collection team, including pipeline developments and their assumed operational dates. This will be monitored on a frequent basis as part of the standard monitoring arrangements.* *• Business rates are set to be revalued with an effective date of April 2023. Dependent on the outcome of the revaluation exercise, this may impact on the level of retained business rates and/or their collectability. As far as reasonably practicable, the Government intend to adjust business rates top-ups/tariffs to eliminate the impact of the 2023 revaluation on local authorities' retained business rates.*	Possible	Significant
FR2.	**Delivery of all of the agreed savings** is not achieved.	Possible	Extreme	*• Progress and delivery of the overall programme and individual projects is monitored at Executive Director level, by EMB, with any non achievement forming part of the normal budget monitoring action plan process.* *• EMB review the validity and achievability of projects and provide approval (or not) to projects*	Possible	Major
FR3.	The Government could impose a lower **Council Tax referendum** threshold and/or reduce or remove the **Adult Social Care Precept**	Possible	Significant	*• SCC's 'core' Council Tax and Adult Social Care Precept were frozen in the 2022/23 budget. The MTFS assumes increases of 1.99% for 'core' Council Tax and no increase in the Adult Social Care Precept for future years.* *• The Adult Social Care Precept was introduced as part of the Autumn 2015 Spending Review and allowed local authorities with social care responsibilities to increase Council Tax provided it was ring-fenced to Adult Social Care budgets.* *• The option for a Social Care Precept has applied for a number of years and the Spending Review 2021 indicated a 1% flexibility is likely to apply for each year of the 3-year spending review (2022/23 - 2024/25).*	Possible	Significant
FR4.	**Slippage in capital receipts** (not accompanied by a slippage in spend).	Possible	Significant	*• Non-receipt of any planned income will require a permanent draw from reserves, additional borrowing or for savings to be found in the capital programme.* *• Impact reflects the cost of borrowing in short term (the interest payments).*	Possible	Moderate
FR5.	If **building inflation** was to exceed general inflation over a prolonged period, this would have a significant adverse impact on **HRA balances** and, in turn, the business model in respect of the redevelopment and refurbishment of the SCC Housing stock.	Possible	Major	*• Surpluses are liable to change annually, either favourably or not, and this will be reflected in the annual review of stock investment needs and estimated unit rates.* *• Monitoring and assessment of potential impact with business model sufficiently flexible to allow for reassessment of priority outcomes against available budget.*	Possible	Major
FR6.	The level of funds within the **internal insurance provisions** is inadequate to meet current or future demand	Possible	Significant	*• The adequacy of the provision is informed by the output from periodical (at least triennial) external actuarial reviews of the funds.* *• The level of funding required is reviewed as part of annual budget setting process and the position, in respect of potential liabilities is reviewed on a monthly basis.*	Unlikely	Significant

- **Adequacy of proposed financial reserves**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FR7.	**Ad hoc or unforeseen events / emergencies.**	Possible	Extreme	*• The Council's Reserves may be utilised in respect of the financial impact of such an event.* *• Subject to the nature of the event alternative sources of funding might be available e.g. Bellwin Scheme.* *• In previous years the Government allocated un-ringfenced support funding to local authorities to meet COVID-19 pressures and provided funding to meet some fees and charges income losses and some irrecoverable tax losses, as well as providing some ring-fenced grant funding for specific measures e.g. infection control. No un-ringfenced funding has been provided for 2022/23, so use of reserves may be required to meet any COVID-19 expenditure or income losses.*	Possible	Major
FR8.	The cost of implementing the **Care Act** 2014 is greater than anticipated.	Possible	Significant	*• The Government announced a new basis for Social Care provision on 7 September 2021, with a "cap and floor" scheme being implemented from October 2023 to be funded via a new Health and Social Care Levy. In the Growth Plan announced on 23 September 2022 the Health and Social Care Levy was scrapped, however, as yet, no changes to adult social are reforms have been proposed.* *• No costing analysis has been provided so it is unclear whether the quantum of funding earmarked at a national level will be sufficient to cover the costs of the scheme. There is also a risk that the method for distributing the funding will be unfavourable to the Council.* *• The 2022/23 Services Grant announced in the Provisional Local Government Finance Settlement provides funding to meet the Council's cost of the new Health and Social Care Levy (payable from April 2022), however this funding is only guaranteed for 1 year. There is a possibility that the funding may be removed from local government resources in 2023/24 following the scrapping of the Health and Social Care Levy.*	Possible	Significant
FR9.	**CCG** could seek to reduce its level of contribution to the **'pooled budgeting '** arrangement with SCC	Possible	Major	*• Ongoing relationship and dialogue with CCG re shared objectives and outcomes.*	Unlikely	Significant
FR10.	The council is unable to quantify the financial impact on both vulnerable individuals and key council services arising from implementation **of welfare reforms**	Possible	Significant	*The impact of Welfare Reform on all service areas will be difficult to monitor or to mitigate against.*	Possible	Significant
FR11.	**Inflation increases** at a higher rate than anticipated	Likey	Significant	*• Assumptions have been made in the estimates about the likely level of general inflation that will apply in 2022/23. CPI is currently running at 10.1% (September 2022), well above the level that had been anticipated.* *• Market intelligence provided by Arlingclose - independent treasury advisors.* *• An amount is included in the MTFS to cover key elements of inflation, based on assumed inflation rates at the time the MTFS is agreed.* *• Beyond this provision, it would be managed as an 'in year' issue and services would normally be expected to absorb the difference.*	Likely	Significant
FR12.	**Pay Inflation** is at a higher rate than anticipated	Likely	Major	*• The MTFS model approved in February 2022 was based on a pay award of 2.5% for 2022/23 and 2.0% thereafter.* *• Pay awards for the majority of local government employees are agreed through the National Joint Council for Local Government Services, with representatives from both employers and trade unions.* *• The employer's side of the NJC has made an offer of a £1,925 flat rate increase on all spinal colum points. This is equivalent to a 5.6% increase for SCC.*	Likely	Significant

FR13.	Exiting the European Union - Uncertainty and economic forces, at least in the short term, within both the local business and wider business sector may have an adverse impact on investment decisions and local employment which, in turn, would impact on business rate income.	Likely	Significant	*• National and local modelling in respect of the future approach to business rate retention will need to reflect changes in the financial environment.* *• There may be either pressure or incentives for non UK owned business to move operations back to within an EU country.* *• Treasury Management advisors are regularly updating the Council on the economic impact of exiting the European Union, the strength of the pound, inflation and interest rates.*	Likely	Significant

- **Adequacy of proposed financial reserves**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FR14.	There are unplanned and unforeseen consequences (and costs) arising from the implementation of new, or changed, systems and processes across service areas within the organisation	Possible	Significant	*• A Projects and Change Team is in place. A full programme management approach is taken, including planning and risk assessment, with significant support to major projects.*	Unlikely	Significant
FR15.	New accounting rules for financial investments may result in adverse valuation movements being charged to the General Fund in the year that they occur.	Possible	Significant	*• Accounting rules require gains/losses from valuation movements for certain types of financial investments to be recognised in the year they occur, rather than when the investments are sold.* *• The Government put in place legislation to mitigate the impact on the General Fund for the five years 2018/19 to 2022/23. Local authorities are lobbying for the mitigation to be extended. If it isn't, the Medium Term Financial Risk Reserve will be used to manage the volatility that the timing difference may cause.*	Unlikely	Significant
FR16.	COVID-19 will adversely impact on budgets	Almost certain	Major	*• COVID-19 is having ongoing financial effects, as well as introducing significant uncertainty for future financial projects. Major income streams are likely to be impacted, such as council tax and business rates, as well as numerous service costs rising due to increased demand e.g. for social care.The Council included anticipated additional expenditure/income losses in the MTFS agreed in Feb 2021. The MTFS will continue to be used to model the potential effects and ensure the authority continues to plan ahead with robust estimates.*	Almost certain	Significant
FR17.	The cumulative deficit on the Dedicated Schools Grant (DSG) may have to be met from the General Fund if the statutory override is not extended.	Possible	Extreme	*• The cumulative DSG deficit, forecast to be £10.24M at the end of 2022/23, is being held in a separate account in accordance with legislation. The statutory override runs out at the end of 2022/23.* *• Work is being undertaken as part of the DfE programme Delivering Better Value in Special Education Needs & Disabilities to reduce costs.*	Possible	Major

FINANCIAL HEALTH INDICATORS – QTR 2 2022/23

Prudential Indicators Relating to Treasury

	Maximum	Forecast	Status
Maximum Level of External Debt £M	£975M	£418M	Green
As % of Authorised Limit	100%	42.87%	Green

	Maximum	Highest YTD	Status
Authorised Limit for external debt £M	£975M	£327M	Green
Operational Limit for external debt £M	£850M	£327M	Green
Maximum external borrowing year to date	£785M	£266M	Green
Limit of fixed interest debt %	100%	83.2%	Green
Limit of variable interest debt %	50%	16.8%	Green
Limit for Non-specified investments £M	£100M	£28M	Green

Other Treasury Performance Indicators	Target	Actual Qtr 2	Status
Average % Rate Long Term New Borrowing	2.40%	2.94%	Red
Average % Rate Existing Long Term Borrowing	3.00%	2.83%	Green
Average Short Term Investment Rate - Cash	0.01%	2.12%	Green
Average Short Term Investment Rate – Fixed	0.01%	1.80%	Green
Average Long Term Investment Rate - Bonds	2.00%	5.27%	Green
Average Return on Property Fund	4.00%	3.98%	Amber
Average Return on All Investments	2.40%	3.44%	Green

Minimum Level of General Fund Balances

		Status
Minimum General Fund Balance	£10.1M	
Forecast Year End General Fund balance	£10.1M	Green

Income Collection

	2022/23 Target	Qtr 2 YTD	Status
Collection rate	>100%	96.92%	Amber
Average days sales outstanding	</= 62 days	83	Red
Outstanding debt more than 12 months old	</= 20.52%	27.85%	Red
Debt written off	</= 1%	0.40%	Green

Creditor Payments

	2022/23 Target	Qtr 2 YTD	Status
Valid and undisputed invoices paid within 30 days	96%	82.97%	Red

Tax Collection rate

	2021/22 Actual Rate	Target Collection Rate	Qtr 2 Collection Rate		Status
			Last Year	This Year	
Council Tax	92.67%	95.20%	52.87%	53.05%	Amber
National Non Domestic Rates	95.90%	97.56%	53.54%	58.35%	Green

HOUSING REVENUE ACCOUNT FORECAST OUTTURN POSITION FOR 2022/23

The Housing Revenue Account is currently forecast to have a nil variance against the budgeted deficit for the year**,** no movement from the position forecast at quarter 1.

	Budget Qtr 2 £M	Annual Forecast Qtr 2 £M	Forecast Variance Qtr 2 £M	Forecast Variance Qtr 1 £M	Variance Movement from Qtr 1 £M
Expenditure					
Responsive & cyclical repairs	20.63	21.45	0.82 A	1.12 A	0.30 F
Rents payable	0.10	0.20	0.10 A	0.10 A	0.00
Debt management	0.08	0.08	0.00	0.00	0.00
Supervision & management	25.05	25.85	0.80 A	0.84 A	0.04 F
Interest & principal repayments	5.16	4.86	0.30 F	0.00	0.30 F
Depreciation	23.76	21.86	1.90 F	1.90 F	0.00
Direct revenue financing of capital	2.54	2.40	0.14 F	0.78 F	0.64 A
Total Expenditure	**77.33**	**76.71**	**0.62 F**	**0.62 F**	**0.00**
Income					
Dwelling rents	(71.84)	(71.22)	0.62 A	0.62 A	0.00
Other rents	(1.18)	(1.18)	0.00	0.00	0.00
Service charge income	(2.34)	(2.34)	0.00	0.00	0.00
Leaseholder service charges	(1.05)	(1.05)	0.00	0.00	0.00
Interest received	0.00	0.00	0.00	0.00	0.00
Total Income	**(76.41)**	**(75.79)**	**0.62 A**	**0.62 A**	**0.00**
(SURPLUS)/DEFICIT	**0.92**	**0.92**	**0.00**	**0.00**	**0.00**

NB Numbers are rounded

The SIGNIFICANT movements between quarter 1 and quarter 2 for the HRA are:

Service Area	Movement in Forecast Variance Between Qtr 1 and Qtr 2 £M	Explanation:
Responsive and Cyclical repairs	0.30 F	The recharge rate applied to Housing Operatives has been updated mid-year to take into account cost pressures in 2022/23. This will ensure a fairer distribution of cost to the capital programme and will reduce pressure on the Housing Revenue Account.

Interest & Principal repayments	0.30 F	A review of the Housing capital programme during July 2022 identified a likely underspend. This, combined with underspend on the capital programme at the end of 2021/22 has allowed the interest forecast to be reduced by £0.3M.
Direct Revenue Financing	0.64 A	Efforts are being made to ensure the working balance to the HRA is maintained at £2M. The level of saving still to be achieved is £0.14M, a reduction of £0.64M since Quarter 1.

Landlord Controlled Heating Account

The Council provides landlord controlled heating to 5,664 tenants and leaseholders across the City. Costs are incurred by the Council in respect of electricity, gas and geothermal power, and are subsequently recharged to tenants. The charges to tenants increased in 2022/23 by 16%, and energy costs have significantly increased (88% for electricity, 150% for gas). The current projected deficit on the account for 2022/23 is as follows:

	£M
Forecast energy cost	7.50
Forecast full year income	(4.60)
In-Year Deficit	**2.90**
Deficit brought forward from 2021/22	0.88
Deficit carried forward to 2023/24	**3.78**

COLLECTION FUND REVENUE ACCOUNT
FOR YEAR ENDED 31ST MARCH 2023

	Current Budget 2022/23 £M	Forecast 2022/23 £M	Variance Adverse / (Favourable) 2022/23 £M
Council Tax			
Total Council Tax Income	**(128.46)**	**(128.74)**	**(0.29)**
Total Council Tax Expenditure (incl. precepts)	**131.37**	**131.21**	**(0.17)**
Council Tax Deficit/(Surplus) for the Year	**2.92**	**2.47**	**(0.45)**
Council Tax Deficit/(Surplus) Brought Forward	(2.65)	(2.76)	(0.11)
Council Tax Deficit/(Surplus) Carried Forward	**0.26**	**(0.29)**	**(0.56)**
Business Rates			
Total Business Rates Income	**(123.32)**	**(120.63)**	**2.69**
Total Business Rates Expenditure	**99.05**	**96.78**	**(2.26)**
Business Rates Deficit/(Surplus) for the Year	**(24.27)**	**(23.84)**	**0.43**
Business Rates Deficit/(Surplus) Brought Forward	26.26	17.11	(9.15)
Business Rates Deficit/(Surplus) Carried Forward	**1.99**	**(6.73)**	**(8.72)**
Total Collection Fund (Surplus)/Deficit	**2.26**	**(7.03)**	**(9.28)**

Council Tax (Surplus)/Deficit	
Contribution (to)/ from SCC	(0.25)
Contribution (to)/ from HPCC	(0.04)
Contribution (to)/ from H and IOW F&R	(0.01)
Council Tax Collection Fund Balance c/f	(0.29)
NDR (Surplus)/Deficit	
Contribution (to)/ from SCC	(3.30)
Contribution (to)/ from DLUHC	(3.37)
Contribution (to)/ from H and IOW F&R	(0.07)
NDR Collection Fund Balance c/f	(6.73)
Total SCC (Surplus)/Deficit	**(3.55)**
ADD: Variance in grant estimated as due from Government (General Fund)	(1.18)
ADD: Shortfall in grant income c/f from 2021/22 due to deferral of CARF schei	4.43
NET SCC (Surplus)/Deficit for future budget purposes at Qtr 2	**(0.29)**

GENERAL FUND & HRA: PROGRAMME AMENDMENTS SINCE LAST REPORTED POSITION

Portfolio	Scheme	£M	*Council/Cabinet **Delegated Approval	Funding Source	App. 2 Ref
Additions to the Programme					
Children & Learning	DT Block rennovations - Great Oaks	0.26	**	Government Grant	
Economic Development	Council Corporate Buildings	1.32	^	Council Resources	4
Housing & the Green Environment	Weston Shore Coastal Erosion	0.03	**	Grant	
	High Priority Play Areas	0.30	**	CIL	
		0.33			
Safer City	Safer City - Motorcyle interventions	0.50	^	CIL	12
Transport & District Regeneration	Itchen Bridge	0.70	^	CIL	13
	Safer Streets	0.50	^	CIL	14
		1.20			
Total Additions to the GF Programme		**3.61**			
Total Additions to the HRA Programme	Lift Refurbishment - Shirley Towers	0.40	**	Council Resources	
Total Additions to the Overall Programme		**4.01**			
Reductions to the Programme					
Communities & Customer Engagement	Extend Library Opening Hours	(0.25)	^	Council Resources	5
Finance & Change	Corporate Assets Decarbonisation Scheme(CADS)	(4.11)	^	Council Resources	6
	Civic Centre Upgrade	(2.50)	^	Council Resources	7
	IT Equipment and Software Refresh	(0.50)	^	Capital Receipts	8
		(7.11)			
Health, Adults & Leisure	Golf Course	(0.50)	^	Council Resources	9
Housing & the Green Environment	Green City Action Plan	(0.30)	^	Council Resources	10
	Hoglands Park & Pavillion	(1.00)	^	Council Resources	11
		(1.30)			
Transport & District Regeneration	Highways	(0.50)	^	CIL	14
	Public Transport - Zebra	(0.07)	^	Government Grant	15
	LordswoodClose - Unadopted Road	(0.25)	^	Council Resources	16
		(0.82)			
Total Reductions to the GF Programme		**(9.98)**			
Total Variations to the Overall Programme		**(5.97)**			

	£M
* - Approved By Council/Cabinet	0.00
** - Approved under Delegated Powers	0.99
^ - Require Approval	(6.96)
Total Variations to the Overall Programme	**(5.97)**