DECISION-MAKER:		CABINET		
SUBJECT:		REVENUE FINANCIAL MONITORING FOR THE PERIOD TO THE END OF DECEMBER 2023		
DATE OF DECISION:		20 FEBRUARY 2024		
REPORT OF:		CABINET MEMBER FOR FINANCE & CHANGE		
CONTACT DETAILS				
Executive Director	**Title:**	Executive Director Corporate Services and Section 151 Officer		
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STATEMENT OF CONFIDENTIALITY
Not Applicable
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 December 2023.

The current forecast General Revenue Fund deficit for the year is £11.83M. This is after taking account of £23.97M agreed in-year cost control measures and savings (including favourable monitoring variances), of which £13.10M are in the process of delivery.

The most significant forecast deficit is for the Children & Learning Directorate (£6.58M), with substantial forecast deficits also in the Corporate Services Directorate (£2.35M) and Wellbeing & Housing Directorate (£3.23M).

The MTFS update report to Cabinet and Council in July 2023 set out the financial strategy adopted and actions being taken to address the challenges faced. Further MTFS update reports to Cabinet in October 2023 and November 2023 included additional measures to help reduce expenditure to within budget for 2023/24 and to contribute to achieving a sustainable budget for future years.

While progress is being made in reducing the in-year overspend, which has come down from £20.91M at quarter 1 to £11.83M at quarter 3, it is unlikely that the deficit will be eradicated by the end of the financial year. Work continues on minimising the overspend to reduce the contribution from already depleted reserves that will be needed to balance the budget.

RECOMMENDATIONS:

	General Revenue Fund Cabinet is recommended to:	
	i)	Note the forecast outturn position is a £11.83M deficit, after taking account of £23.97M agreed in-year cost control measures and savings, as outlined in paragraphs 3 to 11.
	ii)	Note the performance in delivering agreed savings plans and in-year cost control measures for 2023/24 as detailed in paragraph 12.
	iii)	Note the performance of treasury management, and financial outlook in paragraphs 13 to 17.
	iv)	Note the performance against prudential indicators in paragraphs 18 and 19.
	v)	Note the forecast year end position for reserves and balances as detailed in paragraphs 20 to 22.
	vi)	Note the Key Financial Risk Register as detailed in paragraph 23.
	vii)	Note the improvement in the Dedicated Schools Grant cumulative deficit detailed in paragraph 27.
	viii)	Note the performance indicators detailed in paragraphs 30 to 31.
	ix)	Note the forecast outturn position outlined in the Collection Fund Statement detailed in paragraphs 35 to 40.
	Housing Revenue Account Cabinet is recommended to:	
	x)	Note the forecast outturn position is a surplus of £0.59M as outlined in paragraphs 32 to 34.

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)	
	Revenue Financial Position
3.	The current forecast spending against the council's net General Fund revenue budget for the year is projected to be a deficit of £11.83M after taking account of £23.97M agreed in-year cost control measures and savings (which includes financial monitoring favourable variances), of which £13.10M are in the process of delivery. The position is summarised in Table 1 below.

4. **Table 1 – General Revenue Fund Forecast 2023/24**

	Budget Quarter 3 £M	Annual Forecast Quarter 3 £M	Forecast Variance Quarter 3 £M	Forecast Variance Quarter 2 £M	Movement from Quarter 2 £M
Children & Learning	64.02	70.60	6.58 A	7.67 A	1.10 F
Corporate Services	39.23	41.58	2.35 A	2.35 A	0.01 A
Place	28.59	28.07	0.52 F	0.47 A	0.99 F
Strategy & Performance and CEO	3.65	3.98	0.33 A	0.11 A	0.22 A
Wellbeing & Housing	95.28	98.52	3.23 A	4.01 A	0.77 F
Total Directorates	**230.77**	**242.75**	**11.98 A**	**14.61 A**	**2.63 F**
Centrally Held Budgets	(9.19)	(8.90)	0.29 A	0.11 F	0.40 A
Net Revenue Expenditure	**221.58**	**233.85**	**12.26 A**	**14.50 A**	**2.23 F**
Financing	(221.58)	(222.01)	0.43 F	0.43 F	0.00
(Surplus) / Deficit for the year	**0.00**	**11.83**	**11.83 A**	**14.07 A**	**2.23 F**

Numbers are rounded

Children & Learning

5. The Children & Learning Directorate has a forecast deficit of £6.58M (10.3%), a favourable movement of £1.10M from the position at quarter 2. The biggest forecast deficit relates to home to school transport (£4.05M), which is due to higher unit prices as well as increased numbers of pupils with an Education, Health and Care Plan (EHCP) who are eligible for transport. Cost reductions are starting to be achieved by reducing the number of journeys through route optimisation and retendering journeys that use larger vehicles. There is also a deficit of £3.18M for Children Looked After, with demand pressures on placement spend. Package costs are being reviewed and challenged on a weekly basis to bring costs down. This area forms part of a transformation project to help deliver further cost reductions and savings. The application of grant funding is being maximised across the directorate to reduce the forecast deficit.

Corporate Services

6. The Corporate Services Directorate has a forecast deficit of £2.35M (6.0%), an adverse movement of £0.01M from the position at quarter 2. Over half of the forecast deficit relates to IT Services (£1.71M), arising from shortfalls in the salary budget (£0.64M), income from rechargeable costs (£0.90M) and income from schools (£0.45M), together with an unachievable prior year saving (£0.20M), offset by £0.48M of in-year staffing and contract savings. Work is continuing to reduce licensing, contract and system costs to reduce the forecast deficit.

	Place
7.	The Place Directorate has a forecast surplus of £0.52M (1.8%), a favourable movement of £0.99M from the position at quarter 2. Favourable variances for Waste (£1.16M) from increased income (including a new energy from waste income stream), lower disposal costs and a pause in project work, and for Parking & Itchen Bridge (£0.77M) from new city centre car park tariffs and a wider increase in usage are key components of this favourable position.
	Strategy & Performance and the Chief Executive's Office (CEO)
8.	The Strategy & Performance and CEO Directorate has a forecast deficit of £0.33M (9.1%), an adverse movement of £0.22M from the position at quarter 2.
	Wellbeing & Housing
9.	The Wellbeing & Housing Directorate has a forecast deficit of £3.23M, a favourable movement of £0.77M from the position at quarter 2. The main area of forecast overspending relates to Adults – Long Term (£4.02M) which includes increased costs of care (£1.46M) and a £1M increase in the cost of bad debts, together with £3.33M for the risk of costs increasing in the final quarter of the year based on past experience, offset by £1.68M new government funding for care costs. Various interventions and projects are planned to take place during the remainder of the year to prevent the cost increases occurring.
10.	More detail, including explanations of significant variances as at quarter 3 (in excess of £0.2M) is provided in Appendix 1. Annex 1.1 shows how the service areas under each directorate translate to Cabinet portfolios.
11.	Work continues on identifying ways to bring down costs and generate more income to reduce overspending in-year and help improve the financial position for future years.
	Implementation of Savings Plans
12.	£40.12M of directorate savings plans have been agreed for 2023/24, including agreed in-year savings and cost control measures. £37.26M (93%) have been achieved or are on track to be achieved before the end of this financial year. The balance of £2.86M (7%) are currently not forecast to be achieved and are included in the adverse variances reported for directorates. A full list of all directorate savings for 2023/24 and their achievability status is provided in Appendix 2.
	Treasury Management
13.	Treasury Management borrowing and investment balances as at 31 December 2023 and forecasts for the year-end are set out in Appendix 3. After taking into account maturing and new debt requirements in year and a forecast reduction in investment balances, net debt is expected to increase by £74.42M to £380.15M as at 31 March 2024, a reduction of £7.10M from the position at quarter 2, due to a reduction in the draw on balances. This forecast remains subject to change, most notably regarding the use of balances and changes to the capital programme.
14.	As at 31 December 2023 the forecast cost of financing the council's loan debt was £20.45M of which £5.88M related 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.
15.	Interest rates have seen a substantial rise over the last two years, although began to plateau towards the end of 2023. Rates over the last 3 quarters were at the peak between June and October, since then they have fallen back to lows last seen in April

	2023. Gilt yields have remained volatile, facing upward pressure following signs that UK growth had been more resilient and inflation stickier than expected. However more recent signs of slowing inflation and the perception of an increasingly struggling economy have now begun to change this sentiment, resulting in falling gilt yields and, consequently, PWLB rates. The bank rate has remained at 5.25% since August 2023 and our treasury management advisors believe it has now peaked. No further debt was taken in quarter 3 but we will need to borrow before year end to meet forecast cashflow. Any borrowing will be done in consultation with the council's treasury management advisors.
16.	Treasury management investments are primarily made to manage day-to-day cash flows using short-term low risk instruments. The council's investment balances as at 31 December 2023 were £51.78M and are expected to reduce to £48M by year end.
17.	Appendix 3 includes an overview of current performance along with an update on the financial outlook.
	Prudential Indicators
18.	The council is required to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much it can afford to borrow. The Prudential Code includes a series of indicators to demonstrate the objectives of the Code are being fulfilled. It is now a requirement of the Prudential Code that these are reported on a quarterly basis. The prudential indicators as at the end of December 2023 are detailed in Appendix 4. The council has operated within the limits set by the prudential indicators for the period to 31 December 2023. The prudential indicators include the ratio of financing costs to net revenue stream as a measure of the affordability of the capital programme. The upper limit for this ratio is set at 11%. This allows for known borrowing decisions in the next two years and to allow for additional borrowing affecting major schemes, it includes the cost of long term liabilities but now excludes investment income in line with the revised code. The 2023/24 forecast for the General Fund is 9.58%.
19.	The Department for Levelling Up, Housing and Communities (DLUHC) issued two consultations in December 2023 - a "final" consultation on proposed changes to regulations and statutory guidance on Minimum Revenue Provision (MRP) closing on 16 February 2024 and a "call for views" on capital measures to improve sector stability and efficiency closing on 31 January 2024. Draft regulations and draft statutory guidance are included in the MRP consultation. The proposals remain broadly the same as those in June 2022 – to limit the scope for authorities to (a) make no MRP on parts of the capital financing requirement (CFR) and (b) to use capital receipts in lieu of a revenue charge for MRP. In its call for views on capital measures, the government wishes to engage with councils to identify and develop options for the use of capital resources and borrowing to support and encourage 'invest-to-save' activity and to manage budget pressures without seeking exceptional financial support. Whilst the government has identified some options including allowing authorities to capitalise general cost pressures and meet these with capital receipts, there is no commitment to take any of the options forward. We are currently reviewing these consultations and will report back any action or changes required to our practices and procedures.

	Reserves & Balances
20.	At the 31 March 2023, earmarked revenue reserves totalled £49.59M, plus schools balances totalling £5.46M. As at the end of December 2023 the forecast 2023/24 year-end balance for non-school reserves was £28.07M, before any use to meet the £11.83M in-year deficit. This includes contributions to new Transformation and Improvement, Organisational Redesign and Investment Risk reserves totalling £4.87M agreed as part of the October 2023 MTFS update. The net forecast reduction in non-school reserves of £21.52M includes £20.62M planned use of reserves per the MTFS agreed in February 2023, release of £5.56M of revenue grants carried forward via reserves (including Public Health Grant), a forecast net drawdown of £1.30M from the On Street Parking Reserve to fund the capital programme and net drawdowns totalling £1.14M from other reserves, offset by the £4.87M contribution to new reserves and a contribution of £2.23M for the in-year surplus on the Dedicated Schools Grant.
21.	The forecast year-end balance for the Medium Term Financial Risk (MTFR) Reserve is £9.42M. This is not sufficient to cover the in-year deficit if it is not reduced from its current level. Any one-off sums set aside in the Transformation & Improvement Reserve or Organisational Redesign Reserve that have not been utilised during the year would be the first call for any residual deficit.
22.	The General Fund balance is currently £10.07M, which is 4.5% of the net revenue budget compared to a minimum level of 5% of net revenue expenditure recommended by CIPFA. Based on the forecast as at the end of December 2023, the General Fund Balance will not be required to meet any of the in-year deficit.
	Key Financial Risks
23.	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 Appendix 5.
	Schools
24.	As at 31 December 2023 there were 14 schools forecasting a deficit balance totalling £3.7M which compares to deficits totalling £4.5M at the end of the last financial year (2022/23). There are 28 schools forecasting a surplus balance of £6.7M which compares to surpluses totalling £9.5M at the end of the last financial year. The net position is therefore a £3.0M surplus. At the time of writing there are two schools in deficit working with the Executive Director for Children and Learning, and the finance team to finalise their deficit recovery plans (DRP). These are: • Compass Alternative Provision • Townhill Junior Compass Alternative Provision have received advice during September from a School Resource Management Adviser, provided free of charge by the Department for Education. The results are expected to be incorporated into a Deficit Recovery Plan. Townhill Junior has produced a Deficit Recovery Plan which needs to be approved by its board of governors.
25.	The Schools Finance team are working with schools and providing advice on areas where the schools need to make changes to return to surplus. 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.
26.	When a school is required to become an academy by the Department for Education, normally following an inadequate Ofsted inspection grade, then the deficit on conversion becomes a charge to the council's General Fund. There are currently two schools with an Ofsted grade "Requires Improvement", with a combined deficit totalling £0.8M.
	Dedicated Schools Grant (DSG) 2023/24
27.	The forecast outturn for the Dedicated Schools Grant (DSG) as at the end of December 2023 is a £7.9M cumulative deficit, an improvement of £2.2M from the £10.1M cumulative deficit as at 31 March 2023. The deficit has been driven primarily by the significant year on year increases in Education Health Care Plans (EHCPs) and with higher levels of needs in these plans. Whilst this reflects the national picture, the impact is reflected in our local financial resilience. The increase in High Needs funding in 2023/24 has helped 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 primary strategy for managing the increase in High Needs is threefold: 1. Reduce the number of children requiring an Education and Health Care Plan through targeted early intervention support, through enhanced training and support to schools and parents. 2. Reduce the number of children requiring a place at a special school, by improving the consistency of offer and inclusive practice at mainstream schools and by developing SEND units and resourced provisions within mainstream schools. 3. Maintain a reduction in the reliance of placements in high cost out of city special independent school places, by enhancing the offer and facilities of local mainstream schools, and on the development of highly specialist units and resourced provisions. There has been a reduction in the number of placements in out of city special independent school places and the resultant reduced spend is reflected in the forecast reduction in the deficit.
28.	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 2026, having recently been extended by 3 years.
29.	What this means, however, is that whatever deficit remains, as of April 2026, will impact directly on the council and will need to be covered by General Fund resources. It is therefore important the council ensures robust plans are in place to address the deficit within the 3 year window allowed by Government. The council will need to engage with other authorities and Government to control this deficit. This is likely to be a difficult challenge, which faces many councils nationally.
	Performance Indicators
30.	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 performance indicators. Appendix 6 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.

31.	For Income Collection, average days sales outstanding and percentage of debt more than 12 months old are not achieving the targets set for the year. The Customer Payments and Debt Team has been involved with implementing a major upgrade to the system used to collect housing income which has impacted collection rates. The major contributor to the average day sales outstanding performance is adult social care debt (e.g. clients waiting for appointeeship and deputyship) and levels of former tenant arrears. This is closely linked to the percentage of debt more than 12 months old performance. The Team has focussed on aged debt in the last quarter, hence the improvement since quarter 2. For Creditor Payments, although performance for valid and undisputed invoices paid within 30 days has improved and is now exceeding the target, the issues with non-compliance remain. Due to the holiday period in December, there were fewer invoices to process so it is felt that the performance is a reflection of this rather than increased compliance. The January figures will help determine whether or not this assumption is correct. For Tax Collection, the target for in-year council tax collection is not being achieved. However, the target was increased by 0.89% compared to the previous year's actual collection rate with no additional resources to help improve performance, and performance has actually improved by 0.20% compared with last year despite vacancies within the team.
	Housing Revenue Account (HRA)
32.	The Housing Revenue Account is forecast to have a surplus of £0.59M for the year, no change to the position as at quarter 2, as summarised in Table 2 below, which will be used to increase the HRA working balance to £2.59M.
33.	**Table 2 – Housing Revenue Account Forecast 2023/24**

	Budget Quarter 3 £M	Annual Forecast Quarter 3 £M	Forecast Variance Quarter 3 £M	Forecast Variance Quarter 2 £M	Movement from Quarter 2 £M
Expenditure	79.77	79.20	0.58 F	0.58 F	0.00
Income	(79.77)	(79.78)	0.01 F	0.01 F	0.00
(Surplus) / Deficit for the year	**0.00**	**(0.59)**	**0.59 F**	**0.59 F**	**0.00**

Numbers are rounded

34.	Details of significant variances to budget are provided in Appendix 7.
	Collection Fund
35.	Appendix 8 shows the forecast outturn position for the Collection Fund at quarter 3, with the position summarised in Table 3.

36. **Table 3 – Collection Fund Forecast 2023/24**

	Council Tax £M	Business Rates £M	Total £M
Distribution of previous years' estimated surplus/(contribution towards estimated deficit)	(0.31)	3.45	3.14
Net (income)/expenditure for 2023/24	0.58	2.38	2.96
(Surplus)/Deficit for the year	**0.28**	**5.83**	**6.10**
(Surplus)/Deficit brought forward from 2022/23	0.90	(13.20)	(12.30)
Overall (Surplus)/Deficit Carried Forward	**1.18**	**(7.38)**	**(6.20)**
SCC Share of (Surplus)/Deficit	**0.99**	**(3.61)**	**(2.63)**
Add: Variance in SCC government grant income for business rates reliefs for 2023/24		0.09	0.09
SCC Net Share of (Surplus)/Deficit including government grant adjustments to be taken into account in 2024/25 budget setting	**0.99**	**(3.52)**	**(2.54)**

Numbers are rounded

37. The position on the Collection Fund as a whole is a forecast surplus to be carried forward of £6.20M, comprising a forecast deficit of £1.18M for Council Tax and a forecast surplus of £7.38M for Business Rates.

38. For Council Tax, £0.90M of the deficit was carried forward from 2022/23. Of this, £0.31M was estimated in January 2023 and is being recouped in the current year. The net expenditure for 2023/24 excluding the contribution towards the previous years' estimated deficit is £0.58M. This relates primarily to a higher level of exemptions than estimated when the budget was set.

39. For business rates, a surplus of £13.20M was carried forward from 2022/23. Of this, £3.45M was estimated in January 2023 and is being distributed in the current year. The net expenditure for 2023/24 excluding the distribution of the previous years' estimated surplus is £2.38M. This primarily relates to a £3.33M increase in the amount set aside for appeals compared to budget, offset by a £1.02M reduction in amount set aside for bad debts compared to budget.

40. The council's share of the forecast £6.20M surplus is £2.63M. In addition, grant compensation for business rates reliefs is forecast to be £0.09M less than budgeted, resulting in a forecast adjusted surplus of £2.54M. This surplus is being taken into account in setting the 2024/25 budget and is not available for use in 2023/24.

Conclusion and Outlook

41. Measures have been brought forward throughout the year to help reduce expenditure to within budget for the current year and to stabilise the council's financial position. While some progress is being made the position remains challenging, with a forecast deficit on the General Revenue Fund of £11.83M for the year, and it is unlikely that the deficit will be eradicated by the end of the financial year.

RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
42.	The revenue implications are contained in the report.
<u>Property/Other</u>	
43.	None.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report</u>:	
44.	Financial reporting is consistent with the Section 151 Officer's duty to ensure good financial administration within the Council.
<u>Other Legal Implications</u>:	
45.	None.
RISK MANAGEMENT IMPLICATIONS	
46.	See comments within the report. There is a risk that if cost control measures and savings do not mitigate the overspend adequately, reserves and/or balances will need to be used up to balance the budget.
POLICY FRAMEWORK IMPLICATIONS	
47.	None.

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	All

SUPPORTING DOCUMENTATION

Appendices

1.	General Revenue Fund Forecast Qtr 3 2023/24
2.	Savings and In-Year Cost Control Measures Qtr 3 2023/24
3.	Treasury Management Qtr 3 2023/24
4.	Prudential Indicators Qtr 3 2023/24
5.	Key Financial Risks Register Qtr 3 2023/24
6.	Performance Indicators Qtr 3 2023/24
7.	Housing Revenue Account (HRA) Forecast Qtr 3 2023/24
8.	Collection Fund Forecast Qtr 3 2023/24

Documents In Members' Rooms

1.	None

2.	

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 2023/24, Medium Term Financial Strategy and Capital Programme (Council 22 February 2023)	
2.		