

REVENUE FINANCIAL MONITORING FOR THE PERIOD TO DECEMBER 2019

FINANCIAL POSITION

1. The current forecast spending against the council's net General Fund budget for the year is projected as a balanced position overall, with an adverse variance on portfolios being offset by a favourable variance on non-portfolio expenditure. This is broadly no overall change since Quarter 2, as summarised in Table 1 below.

Table 1 – General Revenue Fund Forecast 2019/20

	Budget Qtr 3 £M	Forecast Qtr 3 £M	Forecast Variance Qtr 3 £M	Forecast Variance Qtr 2 £M	Variance Movement from Qtr 2 £M
Portfolios Net Expenditure	180.37	184.48	4.10 A	0.09 A	4.01 A
Non-Portfolio Net Expenditure	9.19	5.09	4.10 F	0.10 F	4.00 F
Net Revenue Expenditure	189.57	189.57	0.00	0.01 F	0.01 A
Financing	(189.57)	(189.57)	0.00	0.00	0.00
(Surplus) / Deficit for the year	0.00	0.00	0.00	0.01 F	0.01 A

NB Numbers are rounded

2. More detail, including explanations of significant movements in variances between Quarter 2 and Quarter 3 (in excess of £0.1M) is provided in Annex 1.
3. £3.82M of the overall total overspend on portfolios relates to Aspiration, Children & Lifelong Learning and arises from additional agency staffing costs incurred to deal with high caseloads, and high levels of high cost residential and independent fostering agency cases, in the main.
4. £3.76M of the underspend on non-portfolio net expenditure relates to the release of centrally held funds to help meet pressures on portfolios.

Implementation of Savings Proposals

5. Of the £6.18M savings plans included within the 2019/20 budget £3.79M have been achieved or are on track to be achieved before the end of this financial year. The remaining £2.39M are now covered within the exercise of rebasing budgets that took place earlier this year (£2.29M) or can be covered by savings elsewhere (£0.09M).

Treasury Management

6. Treasury Management borrowing and investment balances as at 31 December 2019 and forecasts for the year-end are set out in Annex 2. After taking into account maturing

	and new debt requirements in year and a reduction in investment balances, there is an estimated increase in net borrowing of £93.03M for 2019/20.
7.	The government announced an increase in the margin on PWLB loan rates from 0.8% to 1.8% on 9 October 2019, an increase of £10k for each £1M borrowed. Interest rates and borrowing requirements are kept under review.
8.	Annex 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 2019. The Council has operated within the agreed prudential indicators for the first 9 months of the year and is forecast to do so for the remainder of the year.
9.	The Council will continue to monitor the financial markets closely in light of uncertainties over the UK's exit from the EU, and will keep its treasury management strategy under review.
	<u>Reserves & Balances</u>
10.	The General Fund Balance is currently £10.07M with no planned drawdown during the year. The use of reserves is being monitored and their use is in line with the Financial Strategy.
11.	At the 31 March 2019, earmarked reserves totalled £85.81M, plus Schools Balances totalling £2.85M. The estimated forecast position as at the 31 March 2020 is £67.34M, with Schools Balances forecast to be nil.
	<u>Key Financial Risks</u>
12.	The Council maintains a financial risk register which details the key financial risks that face the Council at a given point in time. This register informs the level of balances and reserves when the budget is set at the February Council meeting, as it also covers the risks faced beyond the current year (such as from future inflation or interest rate levels). The register has been reviewed and is attached as Annex 3.
	<u>Schools</u>
13.	As at 31 st December 2019 there are 13 schools reporting a deficit balance totalling £4.7M. This is a £0.24M increase from Quarter 2 and there is a reduction in overall schools in deficit of one compared to the position reported at the end of the second quarter. These schools continue to work with Children's & Families to agree Deficit Recovery Plans (DRP). Additional resources have been made available from earmarked reserves to fund a school improvement officer and additional finance support. This team is working closely with these schools to assist in the development of deficit recovery plans and to monitor achievement against these during 2019/20.
14.	The forecast for 2019/20 is for a pressure on High Needs to continue at £4M over budget. However, additional funding to offset this is a further central government contribution of £0.53M. The Schools Forum elected not to transfer 0.5% to High Needs and the forecast is therefore for a £3.47M overspend in High Needs. The High Needs Block funding for 2020/21 has a significant increase (17%) which will be targeted at reducing the pressure in this service rather than promoting new activity. The Service is working towards creating additional capacity within the City for children with High Needs who would otherwise become placed in expensive out of city settings which would significantly reduce High Needs expenditure.

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 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. At present all indicators are green with the exception of those for Creditor Payments. Undisputed invoices paid within terms are at 92.0% compared with a target of 98%. This is an improvement in performance compared to the second quarter. Following the move to Business World, payment runs are being made daily and priority is being given to invoices with payment terms shorter than 30 days.

Housing Revenue Account

17. The overall forecast position for the year end on income and expenditure items indicates an underspend of £1.89M as summarised in Table 2 below. The most significant movement from Quarter 2 (£0.18M favourable) relates to a reduction in planned delivery of cyclical maintenance due to delays in recruitment to the Capital Assets Team. Further details are provided in Annex 5.

Table 2 – Housing Revenue Account Forecast 2019/20

	Budget Qtr 3 £M	Forecast Qtr 3 £M	Forecast Variance Qtr 3 £M	Forecast Variance Qtr 2 £M	Variance Movement from Qtr 2 £M
Expenditure	74.24	72.50	1.74 F	1.62 F	0.12 F
Income	74.24	74.39	0.15 F	0.15 F	0.00
(Surplus) / Deficit for the year	0.00	(1.89)	1.89 F	1.77 F	0.12 F

Collection Fund

18. Annex 6 shows the forecast outturn position for the Collection Fund at Quarter 3, with the position summarised in Table 3.

Table 3 – Collection Fund Forecast 2019/20

	Council Tax £M	NDR £M	Total £M
Distribution of previous years' estimated surplus	2.39	3.10	5.49
Other income and expenditure	(0.62)	1.76	1.14
Deficit/(Surplus) for the year	1.77	4.86	6.63
Deficit/(Surplus) brought forward from 2018/19	(1.48)	(5.36)	(6.84)
Overall Deficit/(Surplus) Carried Forward	0.29	(0.50)	(0.21)
SCC Share of Deficit/(Surplus)	0.25	(0.94)	(0.69)

NB Numbers are rounded

19. The overall position has improved by £0.17M between Quarter 2 and Quarter 3, with an increase in the Non Domestic Rates surplus carry forward being greater than the increase in the Council Tax deficit.
20. Southampton City Council's £0.69M share of the net surplus on the Collection Fund will be taken into account in setting the 2020/21 General Revenue Fund Budget.

Annexes

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