

## REVENUE FINANCIAL MONITORING FOR THE PERIOD TO SEPTEMBER 2020

### FINANCIAL POSITION

#### **'Business as Usual' and General Fund Budget 2020/21**

1. The current forecast spending against the Council's net General Fund revenue budget on business as usual (BAU) activities for the year is projected to be a £3.12M underspend after applying corporate funds. The forecast for portfolios net expenditure has improved by £0.42M compared to the position as at the end of July 2020. Use of corporate funds has increased by £4.16M following the application of funding from the Social Care Demand Reserve to meet budget pressures in the Children & Learning portfolio as noted at Council on 16 September 2020.
- The overall BAU financial position is summarised in Table 1 below.

**Table 1 – General Revenue Fund Business as Usual Forecast 2020/21**

	<b>Budget Sept 2020 £M</b>	<b>BAU Annual Forecast Sept 2020 £M</b>	<b>BAU Forecast Variance Sept 2020 £M</b>	<b>BAU Forecast Variance July 2020 £M</b>	<b>BAU Variance Movement from July 2020 £M</b>
Portfolios Net Expenditure	172.05	176.87	4.83 A	5.25 A	0.42 F
Non-Portfolio Net Expenditure	18.78	18.78	0.00	0.00	0.00
<b>Net Revenue Expenditure</b>	<b>190.82</b>	<b>195.65</b>	<b>4.83 A</b>	<b>5.25 A</b>	<b>0.42 F</b>
Financing	(190.82)	(190.82)	0.00	0.00	0.00
<b>Net Overspend / (Underspend)</b>	<b>0.00</b>	<b>4.83</b>	<b>4.83 A</b>	<b>5.25 A</b>	<b>0.42 F</b>
Use of Corporate Funds	0.00	(7.94)	7.94 F	3.78 F	4.16 F
<b>(Surplus) / Deficit for the year</b>	<b>0.00</b>	<b>(3.12)</b>	<b>3.12 F</b>	<b>1.46 A</b>	<b>4.58 F</b>

NB Numbers are rounded

2. More detail, including explanations of significant movements in BAU variances between July 2020 and September 2020 (in excess of £0.2M) is provided in Annex 1.1.
3. The most significant adverse variance on business as usual activities continues to be in the Children & Learning portfolio, which is forecast to overspend by £4.37M, an increase of £0.21M from the £4.16M forecast as at July 2020. Most of this relates to Looked After Children Provision, due to the higher number of children in residential care and independent fostering agencies than budgeted.

## COVID-19 and General Fund Budget 2020/21

4. The forecast shortfall relating to pressures from COVID-19 as at the end of September 2020 and the movement since July 2020 is summarised in Table 2 below. This does not take into account the adverse impact on Council Tax and Business Rates income, which will be met in 2021/22 onwards under Collection Fund accounting arrangements, as outlined in paragraphs 27 to 29 below.

**Table 2 – General Revenue Fund COVID-19 Pressures Forecast 2020/21**

	<b>COVID-19 Forecast Pressures Sept 2020 £M</b>	<b>COVID-19 Forecast Pressures July 2020 £M</b>	<b>COVID-19 Pressures Movement from July 2020 £M</b>
Portfolios Net Expenditure	45.35 A	44.96 A	0.39 A
Non-Portfolio Net Expenditure	16.14 F	16.14 F	0.00
<b>Net Revenue Expenditure</b>	<b>29.21 A</b>	<b>28.83 A</b>	<b>0.39 A</b>
Financing	0.00	0.00	0.00
<b>Net Overspend / (Underspend)</b>	<b>29.21 A</b>	<b>28.83 A</b>	<b>0.39 A</b>
Use of Corporate Funds	9.61 F	9.61 F	0.00
Estimated income loss compensation	4.90 F	4.17 F	0.73 F
BAU underspend	3.12 F	2.70 F	0.42 F
In-year savings	1.50 F	1.50 F	0.00
Tranche 4 Government Grant	6.05 F	0.00	6.05 F
<b>Sub-total: additional measures/Government support</b>	<b>25.17 F</b>	<b>17.98 F</b>	<b>7.19 F</b>
<b>At risk shortfall</b>	<b>4.04 A</b>	<b>10.85 A</b>	<b>6.81 F</b>

NB Numbers are rounded

5. At its meeting on 16 September 2020, Council agreed to address the in-year COVID-19 shortfall through applying £9.6M corporate contingency and risk budgets, £1.5M of in-year savings and the £2.7M forecast BAU underspend as at July 2020 (after use of the Social Care Demand Reserve to meet the Children & Learning overspend). This left £10.9M relating to costs directly attributable to areas for which government funding had previously been allocated as at risk subject to further government support.

6. The at risk shortfall has reduced by £6.81M from the position forecast at July 2020 as follows:
- Forecast costs have increased by £0.39M
  - Following receipt of detailed guidance on the income loss compensation scheme, the estimated claim for the year has increased by £0.73M to £4.90M
  - The Government has announced an additional £1Bn funding for local authorities nationally. Allocations notified by Government on 22 October (and after the

	<p>quarter 2 end) have been taken into account to present the latest picture, with a £6.05M share for Southampton City Council. .</p> <p>This leaves an estimated £4.04M shortfall that will need to be met from uncommitted earmarked reserves if no further Government support is forthcoming.</p>
7.	More detail, including explanations of significant movements in COVID-19 pressures between July 2020 and September 2020 (in excess of £0.2M) is provided in Annex 1.1.
8.	In June, Council agreed that in order to help respond quickly to the pandemic, agreeing significant grants and associated spending could be delegated to the S151 officer, following consultation with senior members of the cabinet. Annexe 1.7 reports on all grants received which are COVID-19 related, for information.
	<b><u>Implementation of Savings Proposals</u></b>
9.	Of the £11.84M savings plans included within the 2020/21 budget £4.82M have been achieved or are on track to be achieved before the end of this financial year. £6.12M of the remaining £7.02M have not been progressed because of the COVID-19 pandemic and are included within the COVID forecast pressures reported in Table 2 above.
	<b><u>Treasury Management</u></b>
10.	Borrowing and investment balances as at 30 September 2020 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 reduction in investment balances, there is an estimated increase in net borrowing of £128.45M for 2020/21. This is less than previously reported as a number of schemes have been deferred to 2021/22.
11.	As a result of the current economic uncertainty, the benchmark gilt rates for PWLB loans remain at historic lows, however following the government's announcement on 9 October 2019 that the margin on loans has increased from 0.8% to 1.8% this is now relatively expensive, and market alternatives are being considered. New HRA loans continue to be discounted at 1% below the usual PWLB borrowing rate. A consultation on the future direction of the PWLB was announced alongside the Chancellor's March 2020 Budget. The consultation closed on 31 July 2020 and an announcement on revised lending terms is expected later in the year or early next year.
12.	The initial reaction to the COVID crisis in March meant that short term liquidity became difficult and Government sought to assist cash flow by providing up front funding as far as possible. As a result 2019/20 year end investment balances were higher than expected and have remained so during the first half of 2020/21 but are expected to fall throughout the year.
13.	The Council will continue to monitor the financial markets closely in light of uncertainties over the impact of the COVID-19 pandemic and the ending of the transition period for the UK's exit from the EU and will keep its treasury management strategy under review.
14.	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 2020. 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.
	<b><u>Reserves &amp; Balances</u></b>
15.	The General Fund Balance is currently £10.07M with no planned drawdown during the year.

16.	At the 31 March 2020, earmarked revenue reserves totalled £86.20M, plus Schools Balances totalling £1.57M. The estimated forecast position as at the 31 March 2021 is £55.43M plus Schools Balances forecast to be £0.79M in deficit (including a £0.02M loan for a school minibuses).
	<b><u>Key Financial Risks</u></b>
17.	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.
	<b><u>Schools</u></b>
18.	<p>As at 30 September 2020 there were 15 schools reporting a deficit balance totalling £4.96M. This is an increase of 2 schools compared to the position reported at 31 July 2020. There are also 32 schools reporting a surplus totalling £4.2M. The net position is therefore an overall deficit of £0.77M. Schools with deficit budgets continue to be supported by the Education Finance Team to develop Deficit Recovery Plans (DRP) and additional resources have been made available in 2020/21 to provide this support. There are 3 schools scheduled to transfer to academy status in 2020/21, one of these is voluntary and the other two are compulsory. The two schools being compulsorily converted to academies have a combined deficit position forecast of between £1.0M - £1.2M for which the Council will need to provide for under legislation. The transfers to academy status are currently scheduled to take place in January 2021. These schools are working with the Finance Team to find in-year savings to reduce these forecast deficits prior to conversion.</p> <p>Schools are bearing additional costs due to COVID-19 which are adversely affecting their forecast outturns. The Government has provided some funding to mitigate the additional expenditure which was for the summer term only (see below). Schools are however continuing to incur additional costs such as backfilling staff who are having to isolate and continuing additional cleaning costs.</p>
19.	The Department for Education (DFE) have confirmed that schools will continue to receive their core funding allocations for 2020/21, regardless of any periods of any partial or complete closure due to COVID-19. The DFE have provided additional funding to schools to cover additional costs as a result of COVID-19. The funding is focused on specific items: Increased premises costs associated with keeping schools open during school holiday periods, support for free school meals where these costs are not covered by the national voucher scheme and additional cleaning costs required due to suspected or confirmed COVID-19 cases. The additional funding does not however cover the costs of loss of self-generated income which the DFE recognise will put some schools' budgets under pressure. Schools have been required to submit claims for their approved additional costs directly to the DFE up to eligible limits depending on the number of pupils at their school. The funding is to cover only the period March to July 2020. While we do not know how long the current situation will continue, future funding beyond July 2020 has not yet been announced. So far 11 schools have had their claims approved totalling around £71,000 for the period March to July 2020. The DFE are currently assessing other claims submitted and will issue the outcome in due course. It is expected that schools will experience a variety of additional pressures to ensure the safe running of their establishments which are not covered by the additional funding and that whilst schools will be expected to, as far as

	possible, manage these within existing budgets there will be cost pressures affecting budgets for many schools. The current 3-year deficit recovery timetable for schools in deficit to get back to a balanced budget may be extended to 5 years if necessary for schools with significant Covid-19 pressures.
	<b>Dedicated Schools Grant (DSG) 2020/21</b>
20.	<p>The Forecast outturn for the Dedicated Schools Grant (DSG) is an £9.42M overspend. The DSG Grant is ring-fenced and the overspend will not impact on the General Fund and non-school services the council provides.</p> <p>This overspend is being driven by significant annual increases in numbers and complexity of Education Health Care Plans (EHCPs) and increasing numbers of expensive out of city placements in independent school settings. A working party has commenced a strategic review of High Needs activity to manage demand for SEND services. The variance includes a cumulative DSG overspend of £7.42M brought forward from the previous year. Pressures on the High Needs services is a nationally recognised issue with significant pressures reported in most local authorities. The 17% increase in High Needs funding in 2020/21 has mitigated some of the pressure being experienced but further work is needed to reduce costs where possible. High Needs funding will also increase by about 12% for the next 2 years which will help the deficit recovery plan.</p> <p>£0.3M of the DSG overspend is due to COVID-19 pressures for loss of income from cancelled training courses, lost room lettings income and reduced parental fee income paid directly to maintained nursery settings.</p>
	<b><u>Financial Health Indicators</u></b>
21.	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 as at quarter 2 2020/21, 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.
22.	As part of its COVID-19 response, the council temporarily ceased debt recovery activity. This coupled with the financial impact of COVID-19 on residents and businesses means some are struggling to pay. This is shown in the average day sales outstanding and debt more than 12 months old figures. Due to the challenge of setting targets for income collection figures these will be reviewed in January 2021 against actual performance and amended if necessary.
	<b><u>Housing Revenue Account</u></b>
	<b>'Business as Usual' and HRA Budget 2020/21</b>
23.	The forecast position for the Housing Revenue Account on business as usual (BAU) activities for the year is projected to be a £0.27M overspend as summarised in Table 3 below.

**Table 3 – Housing Revenue Account Business as Usual Forecast 2020/21**

	Budget Sept 2020 £M	BAU Forecast Sept 2020 £M	BAU Forecast Variance Sept 2020 £M	BAU Forecast Variance July 2020 £M	BAU Variance Movement from July 2020 £M
Expenditure	75.60	75.93	0.32 A	0.48 F	0.80 A
Income	(75.60)	(75.66)	0.05 F	0.06 F	0.01 A
<b>(Surplus) / Deficit for the year</b>	<b>0.00</b>	<b>0.27</b>	<b>0.27 A</b>	<b>0.54 F</b>	<b>0.81 A</b>

NB Numbers are rounded

24. The most significant movement on business as usual activities since the position as at July 2020 is a £1.32M adverse variance on Responsive Repairs. Further details are provided in Annex 1.5.

**COVID-19 and HRA Budget 2020/21**

25. The forecast pressures from COVID-19 as at the end of September 2020 are summarised in Table 4 below. There has been no movement to the position as at July 2020.

**Table 4 – HRA COVID-19 Pressures Forecast 2020/21**

	COVID-19 Forecast Pressures Sept 2020 £M	COVID-19 Forecast Pressures July 2020 £M	COVID-19 Pressures Movement from July 2020 £M
Expenditure	1.25 A	1.25 A	0.00
Income	0.04 A	0.04 A	0.00
<b>(Surplus) / Deficit for the year</b>	<b>1.29 A</b>	<b>1.29 A</b>	<b>0.00</b>

NB Numbers are rounded

**Collection Fund (covering business rates and council tax collection)**

26. Annex 1.6 shows the forecast outturn position for the Collection Fund at the end of September 2020, with the position summarised in Table 5. The Collection Fund operates on behalf of not only Southampton City Council (SCC) but also Hampshire Police, Hampshire Fire and Rescue Authority and the Ministry of Housing, Communities and Local Government as they also receive a share of the proceeds of these income streams. The net impact for SCC alone is shown in the final line of table 5.

**Table 5 – Collection Fund Forecast 2020/21**

	<b>Council Tax £M</b>	<b>Business Rates £M</b>	<b>Total £M</b>
Distribution of previous year's estimated Surplus/(Deficit)	(0.30)	0.51	0.21
Other income and expenditure	0.94	53.33	54.27
<b>Deficit for the year</b>	<b>0.64</b>	<b>53.84</b>	<b>54.48</b>
Deficit/(Surplus) brought forward from 2019/20	2.63	(0.68)	1.95
<b>Overall Deficit/(Surplus) Carried Forward</b>	<b>3.27</b>	<b>53.16</b>	<b>56.42</b>
<b>SCC Share of Deficit/(Surplus)</b>	<b>2.77</b>	<b>26.00</b>	<b>28.77</b>
LESS: SCC - additional Government Grant for business rates reliefs		(24.74)	(24.74)
<b>SCC Net Share of Deficit/(Surplus) after additional Government Grant</b>	<b>2.77</b>	<b>1.27</b>	<b>4.04</b>

NB Numbers are rounded

27. The table shows the net impact for SCC only as a forecast £4.04M deficit, once additional Government Grant to fund extra business rates reliefs is factored in. This forecast is based on bills raised for 2020/21 as at the end of September 2020. The biggest factor in this forecast arises from a reduction in council tax income from taxpayers, due to factors such as an increase in local council tax support scheme claimants. This is met, in part, by Government Hardship Fund grant.
28. The Government has stated that the period over which collection fund deficits must be recovered will be extended from one year to three years, although details have yet to be confirmed. Initial indications are that the spreading of deficits will only apply to the 2020/21 in-year position and that the difference between the 2019/20 outturn and the surplus/deficit estimated in January 2020 for distribution in 2020/21 will have to be budgeted for in full in 2021/22. Of the £4.04M SCC share of the net deficit shown above, £1.85M relates to 2019/20.
29. There is a high level of uncertainty about the impact of COVID-19 on the Collection Fund and a downside risk that the position will worsen significantly during the remainder of the year as the economic downturn takes effect. The SCC share of the deficit could increase in the order of £4M to £8M, if these risks start to fully materialise, though there remains considerable uncertainty as yet.
30. The position on the Collection Fund as a whole is a deficit to be carried forward of £56.42M before extra Government Grant. The vast majority of the deficit relates to the Government's expansion of the business rates retail discount scheme (to 100% relief for the retail, leisure and hospitality sectors) and introduction of the nursery discount scheme in response to COVID-19, a total of £50.45M additional relief compared to the original estimate. These additional reliefs are being funded by Government as grant (known as S31 grant).

	<b>Future Budgets</b>
31.	<p>The adverse financial impact and uncertainty reflected in this report arising from COVID-19 is almost certain to continue into 2021/22. The economic effects are also likely to transmit through to the funding position of the authority, for example through its major income streams such as council tax and business rates. This will make for a very challenging time as the authority looks to make budget decisions for 2021/22 and beyond.</p> <p>The Council has a track record of sound financial management and has sums set aside to guard against risks, both in terms of contingency within its budget and in relation to a prudent approach to reserves. Whilst this will stand the authority in good stead, all councils are facing unprecedented pressures coupled with major uncertainty over their longer term costs and income. The Council will continue to press Government for financial support, both in and beyond the current year, in recognition of the difficulties faced ahead and also the central role local authorities are playing in combating the pandemic.</p>

### **Annexes**

1. General Revenue Fund Forecast Qtr 2 2020/21
2. Treasury Management Qtr 2 2020/21
3. Key Financial Risk Register Qtr 2 2020/21
4. Health Indicators Qtr 2 2020/21
5. HRA Forecast Qtr 2 2020/21
6. Collection Fund Forecast Qtr 2 2020/21
7. COVID-19 Government Grants