REVENUE FINANCIAL MONITORING FOR THE PERIOD TO DECEMBER 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 £4.59M surplus after applying corporate funds. The forecast for portfolios net expenditure has worsened by £0.62M compared to the position as at the end of September 2020. Use of corporate funds has increased by £1.60M following the application of additional funding from the Social Care Demand Reserve to meet the increase in the deficit for Children’s Services within the Children & Learning portfolio.

The overall BAU financial position is summarised in Table 1 below.

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

	Budget Dec 2020 £M	BAU Annual Forecast Dec 2020 £M	BAU Forecast Variance Dec 2020 £M	BAU Forecast Variance Sept 2020 £M	BAU Variance Movement from Sept 2020 £M
Portfolios Net Expenditure	172.70	178.15	5.45 A	4.83 A	0.62 A
Non-Portfolio Net Expenditure	18.33	17.84	0.49 F	0.00	0.49 F
Net Revenue Expenditure	**191.02**	**195.98**	**4.96 A**	**4.83 A**	**0.13 A**
Financing	(191.02)	(190.82)	0.00	0.00	0.00
Net Deficit / (Surplus)	**0.00**	**4.96**	**4.96 A**	**4.83 A**	**0.13 A**
Use of Corporate Funds	0.00	(9.55)	9.55 F	7.94 F	1.60 F
(Surplus) / Deficit for the year	**0.00**	**(4.59)**	**4.59 F**	**3.12 F**	**1.47 F**

NB Numbers are rounded

2. More detail, including explanations of significant movements in BAU variances between September and December 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 have a deficit of £5.76M, an increase of £1.39M from the £4.37M forecast as at September 2020. The majority of the deficit (£3.63M) continues to be for 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 December 2020 and the movement since September 2020 is summarised in Table 2 below. Tranche 4 COVID-19 Support Grant was reported separately for quarter 2, however for consistency with the other tranches it has been included within the Non-Portfolio Net Expenditure in Table 2. The reported position 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 32 below.

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

	COVID-19 Forecast Pressures Dec 2020 £M	**COVID-19 Forecast Pressures Sept 2020 £M**	**COVID-19 Pressures Movement from Sept 2020 £M**
Portfolios Net Expenditure	34.53 A	45.35 A	10.82 F
Non-Portfolio Net Expenditure	22.30 F	22.19 F	0.11 F
Net Revenue Expenditure	**12.23 A**	**23.16 A**	**10.93 F**
Financing	0.00	0.00	0.00
Net Deficit / (Surplus)	**12.23 A**	**23.16 A**	**10.93 F**
Use of Corporate Funds	0.00	9.61 F	9.61 A
Estimated income loss compensation	6.33 F	4.90 F	1.43 F
BAU surplus	2.36 F	3.12 F	0.76 A
In-year savings	1.50 F	1.50 F	0.00
Government new burdens funding	0.28 F	0.00	0.28 F
Sub-total: additional measures/Government support	**10.47 F**	**19.12 F**	**8.65 A**
At risk shortfall	**1.76 A**	**4.04 A**	**2.28 F**

NB Numbers are rounded

5.	More detail, including explanations of significant movements in COVID-19 pressures between September and December 2020 (in excess of £0.2M) is provided in Annex 1.1.
6.	The forecast COVID-19 pressures for Adults Services has reduced by almost £12M since quarter 2. The majority of this relates to the funding of hospital discharges continuing to be met by the Clinical Commissioning Group and homecare costs not increasing as much as previously anticipated, partially offset by additional staffing costs.

7.	The reduction in the forecast pressures for Adults means that the £9.61M of Corporate Funds previously earmarked to meet in-year COVID-19 pressures, along with £0.73M of the BAU surplus, is no longer needed for that purpose. It is proposed to transfer these funds into the Social Care Demand Reserve to be available to meet social care pressures in future years, as set out in the 2021/22 Budget Report and MTFS.
8.	The at risk shortfall has reduced by £2.28M from the position forecast for quarter 2. This leaves £1.76M shortfall that will need to be met from uncommitted earmarked reserves if no further Government support is forthcoming or costs do not reduce further.
9.	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 1.2 reports on all grants received which are COVID-19 related, for information.
	Implementation of Savings Proposals
10.	Of the £11.84M savings plans included within the 2020/21 budget £5.11M have been achieved or are on track to be achieved before the end of this financial year. £6.13M of the remaining £6.73M have not been progressed because of the COVID-19 pandemic and are included within the COVID forecast pressures reported in Table 2 above.
	Treasury Management
11.	Borrowing and investment balances as at 31 December 2020 and forecasts for the year-end are set out in Annex 1.3. After taking into account maturing and new debt requirements in year and a reduction in investment balances, there is a current estimated increase in net borrowing of £37.55M for 2020/21. This is less than previously reported as a number of schemes have been deferred.
12.	In November 2020 the Public Works Loans Board (PWLB) published its response to the consultation on 'Future Lending Terms'. From 26 November 2020 the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8% providing that the borrowing authority confirms that it does not have plans to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. See Annex 1.3 for further details.
13.	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 remained so during the year to the end of December 2020 but are expected to fall during the final quarter of the year.
14.	The Council will continue to monitor the financial markets closely in light of uncertainties over the impact of the COVID-19 pandemic and will keep its treasury management strategy under review.
15.	Annex 1.3 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 9 months of the year and is forecast to do so for the remainder of the year.

	Reserves & Balances
16.	The General Fund Balance is currently £10.07M with no planned drawdown during the year.
17.	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 £92.43M plus Schools Balances forecast to be £0.81M in deficit (including a £0.02M loan for a school minibus). The £92.43M includes carry forward of £28.17M of government grants relating to the Council's share of the deficit on the Collection Fund, which under accounting arrangements is carried forward to be met from the General Fund revenue budget in future years. Excluding the government grants carried forward, the non-school earmarked revenue reserves are forecast to be £64.26M at 31 March 2021.
	Key Financial Risks
18.	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 1.4.
	Schools
19.	As at 31 December 2020 there were 16 schools reporting a deficit balance totalling £5.09M This is an increase of 1 school compared to the position reported at 30 September 2020. There are 29 schools reporting a surplus totalling £4.3M. The net position is therefore an overall deficit of £0.79M which is £0.02M adverse movement from the quarter 2 position. 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. Two of these conversions are compulsory orders and planned to take place in February 2021 and September 2021. The third conversion is voluntary and planned to take place in April 2021. The two compulsory conversions have a combined deficit position forecast of between £1.0M - £1.2M for which the Council will need to provide for under school's legislation. The schools are working with the Finance Team to identify in-year savings to reduce the forecast deficits prior to conversion. Schools are bearing exceptional costs associated with COVID-19 which are adversely affecting their forecast outturns. The Department for Education (DfE) have provided support for eligible additional costs incurred for the period March to July 2020 (see below). Schools are however continuing to incur additional costs beyond July such as backfilling for staff having to isolate and continuing additional cleaning costs.
20.	So far 24 schools have had their COVID-19 expense claims approved totalling £0.2M for the claim 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.
	Dedicated Schools Grant (DSG) 2020/21
21.	The Forecast outturn for the Dedicated Schools Grant (DSG) at the end of December 2020 is a £9.35M deficit, which includes £0.27M for COVID-19 related pressures. The DSG Grant is ring-fenced and the deficit will not impact on the General Fund and non-school services the council provides. This deficit is being driven by significant year on year annual increases in the number and complexity of Education Health Care Plans (EHCPs) and increasing numbers of pupils with Special Educational Needs and Disability (SEND) being placed in expensive out of city placements in independent school settings. A working party has commenced a strategic review of High Needs activity to manage SEND demand. The variance includes a brought forward deficit of £7.42M from the previous year. Pressures on the High Needs services is a nationally recognised issue with significant pressures reported in most local authorities as a result of historical grant funding allocations not having kept pace with the significant demand increases in the number and complexity of children with SEND. 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 announced for next year is for a further 12% increase which will help support the deficit recovery plan. £0.27M of the DSG deficit 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.
	<u>Financial Health Indicators</u>
22.	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 1.5 outlines the performance as at quarter 3 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.
23.	The aged debt profile has deteriorated due to system issues which have now been resolved and the temporary suspension of debt recovery action during the initial COVID-19 lockdown. The position is expected to improve by year-end as resources have reprioritised to focus on recovery of aged debt or write-off where appropriate with debt recovery work revering to something akin to normal processes, whilst recognises COVID-19 has thrown up economic factors for some residents that need to be taken into account. Actions are being taken to improve performance for undisputed invoices paid within 30 days. These include system improvements and continuing to provide management information.

Housing Revenue Account

'Business as Usual' and HRA Budget 2020/21

24. The forecast position for the Housing Revenue Account on business as usual (BAU) activities for the year is projected to be a £0.18M surplus as summarised in Table 3 below.

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

	Budget Dec 2020 £M	BAU Forecast Dec 2020 £M	BAU Forecast Variance Dec 2020 £M	BAU Forecast Variance Sept 2020 £M	BAU Variance Movement from Sept 2020 £M
Expenditure	75.60	74.92	0.69 F	0.32 A	1.01 F
Income	(75.60)	(75.09)	0.51 A	0.05 F	0.56 A
(Surplus) / Deficit for the year	**0.00**	**(0.18)**	**0.18 F**	**0.27 A**	**0.45 F**

NB Numbers are rounded

25. Details of the significant movements on business as usual activities since the position as at September 2020 are provided in Annex 1.6.

COVID-19 and HRA Budget 2020/21

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

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

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

NB Numbers are rounded

Collection Fund (covering business rates and council tax collection)

27. Annex 1.7 shows the forecast outturn position for the Collection Fund at the end of December 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 second part of table 5.
	Table 5 – Collection Fund Forecast 2020/21

	Council Tax £M	**Business Rates £M**	**Total £M**
Distribution of previous year's estimated Surplus/(Deficit)	(0.30)	0.51	0.21
Net income and expenditure for 2020/21	0.79	56.46	57.25
Deficit for the year	**0.50**	**56.97**	**57.46**
Deficit/(Surplus) brought forward from 2019/20	2.63	(0.68)	1.95
Overall Deficit Carried Forward	**3.13**	**56.29**	**59.41**
SCC Share of Deficit	**2.65**	**27.54**	**30.19**
Less: SCC additional Government Grant for business rates reliefs		(24.71)	(24.71)
SCC Net Share of Deficit after additional Government Grant	**2.65**	**2.83**	**5.48**
Less: SCC spreading adjustment	(0.45)	(1.95)	(2.40)
SCC Net Share of Deficit after additional Government Grant repayable in 2021/22	**2.20**	**0.88**	**3.08**

NB Numbers are rounded

28.	The table shows the net impact for SCC only as a forecast £5.48M deficit, once additional Government Grant to fund extra business rates reliefs is factored in. The biggest factors giving rise to the forecast deficit are a reduction in council tax income from taxpayers, mainly due to an increase in working age local council tax support scheme claimants, and an increase in the amount set aside for losses on business rates appeals.
29.	Alongside the 2021/22 Provisional Local Government Finance Settlement the Government announced details of a scheme to compensate local authorities for 75% of irrecoverable council tax and business rates losses for 2020/21. The Council is expected to benefit by £3.46M from this scheme, which has been taken into account in setting the 2021/22 budget.
30.	To reduce the financial impact in 2021/22 of exceptional losses arising in 2020/21 due to the COVID-19 pandemic, the government has made regulations to require 2020/21 in-year deficits to be spread over 3 years. The spreading of deficits only applies to the estimated 2020/21 in-year position and prior year elements remain to be met in full in 2021/22. For the purposes of spreading, council tax and business rates deficits are treated separately. Of the £5.48M SCC share of the net deficit shown above, £1.85M relates to 2019/20. A spreading adjustment of £2.40M is SCC's share of the deficit to be carried forward and met in 2022/23 and 2023/24. After applying the spreading

	adjustment, the SCC share of the net deficit (after additional government grant) to be taken into account in setting the 2021/22 budget is £3.08M.
31.	There remains a high level of uncertainty about the impact of COVID-19 on the Collection Fund. The forecast anticipates further increases in the number of working age local council tax support claimants and in business rates empty property relief before the end of the financial year.
32.	The position on the Collection Fund as a whole is a deficit to be carried forward of £59.41M 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 £50.49M additional relief compared to the original estimate. These additional reliefs are being funded by Government grant (known as S31 grant).

Annexes

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