

## REVENUE FINANCIAL MONITORING FOR THE PERIOD TO SEPTEMBER 2021

### FINANCIAL POSITION

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 £7.11M deficit. The forecast for portfolios net expenditure has worsened by £4.42M compared to the position as at the end of quarter 1. The BAU financial position is summarised in Table 1 below.

**Table 1 – General Revenue Fund Business as Usual Forecast 2021/22**

|                                | <b>Budget<br/>Qtr 2<br/>£M</b> | <b>BAU<br/>Annual<br/>Forecast<br/>Qtr 2<br/>£M</b> | <b>BAU<br/>Forecast<br/>Variance<br/>Qtr 2<br/>£M</b> | <b>BAU<br/>Forecast<br/>Variance<br/>Qtr 1<br/>£M</b> | <b>BAU<br/>Variance<br/>Movement<br/>from Qtr 1<br/>£M</b> |
|--------------------------------|--------------------------------|---|---|---|--|
| Portfolios Net Expenditure     | 214.86                         | 221.97  | 7.11 A  | 2.69 A  | 4.42 A   |
| Non-Portfolio Net Expenditure  | (41.01)                        | (41.01)   | 0.00  | 0.00  | 0.00   |
| <b>Net Revenue Expenditure</b> | <b>173.85</b>                  | <b>180.96</b>                                       | <b>7.11 A</b>   | <b>2.69 A</b>   | <b>4.42 A</b>  |
| Financing                      | (173.85)                       | (173.85)  | 0.00  | 0.00  | 0.00   |
| <b>(SURPLUS) /<br/>DEFICIT</b> | <b>0.00</b>                    | <b>7.11 A</b>                                       | <b>7.11 A</b>   | <b>2.69 A</b>   | <b>4.42 A</b>  |

NB Numbers are rounded

2. The most significant adverse variance on business as usual activities is for the Children's Social Care portfolio, which is forecast to be in deficit by £5.92M, an increase of £4.40M from quarter 1. This deficit relates mainly to Looked After Children Provision, with increased numbers and cost of residential placements and higher numbers of Special Guardianship Orders. The budget pressure in Children's Services continues to be of concern and at around 12% of the total Portfolio budget represents a major pressure.
- The situation with Children's services to an extent reflects national budget pressures, with many local authorities reporting a similar situation, but the demands faced in Southampton are particularly acute. Any persistent deficit will need to be covered by reserves or corporate contingency funds which would therefore impact on the council's future financial resilience. Plans to mitigation and reduce this budget deficit have therefore been drawn up and are being implemented by Children's Services and the financial position will be regularly monitored. A decision will be taken during the next quarter on deploying the use of reserves and/or contingency funds to mitigate the deficit within Children's Services, but there is a need to earmark funds in support of staffing now and also changes which will help maintain services and lead to longer term savings being realised through demand management as well as improvement to management and monitoring of high cost cases. To this end, an additional £1.3M will

be used now, funded either via corporate contingency budget or via the social care demand reserve, to support staffing costs incurred as part of a package of measures called “Destination 2022” which will underpin the future direction of Children’s Services.

3. The current forecast variance due to COVID-19 is a £0.36M adverse variance, a worsening of £0.40M compared to the position as at the end of quarter 1. The COVID-19 financial position is summarised in Table 2 below.

**Table 2 – General Revenue Fund Forecast COVID-19 Variance 2021/22**

|                                | <b>COVID<br/>Forecast<br/>Variance<br/>Qtr 2<br/>£M</b> | <b>COVID<br/>Forecast<br/>Variance<br/>Qtr 1<br/>£M</b> | <b>COVID<br/>Variance<br/>Movement<br/>from Qtr 1<br/>£M</b> |
|--------------------------------|---|---|--|
| Portfolios Net Expenditure     | 1.86 A  | 1.03 A  | 0.83 A   |
| Non-Portfolio Net Expenditure  | 0.00  | 0.00  | 0.00   |
| <b>Net Revenue Expenditure</b> | <b>1.86 A</b>   | <b>1.03 A</b>   | <b>0.83 A</b>  |
| Financing                      | 1.50 F  | 1.08 F  | 0.42 F   |
| <b>(SURPLUS) / DEFICIT</b>     | <b>0.36 A</b>   | <b>0.04 F</b>   | <b>0.40 A</b>  |

NB Numbers are rounded

4. The budget agreed by Council in February 2021 included provision for expected pressures from COVID-19 related additional expenditure and income losses. The most significant adverse variance for COVID-19 is in the Finance portfolio, which is forecasting a COVID-19 deficit of £1.06M, most of which is reduced income attributable to court fees (with the courts only re-opening in August). The Council is expecting to receive a total of £1.50M of fees and charges losses compensation plus grant income for new duties carried out as a result of COVID-19, which will help to lower the shortfall to an estimated £0.36M.

5. 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.

6. In June 2020, 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. Annex 1.2 reports on all grants received which are COVID-19 related, for information.

**Implementation of Savings Proposals**

7. Of the £10.77M savings plans included within the 2021/22 budget £9.52M have been achieved or are on track to be achieved before the end of this financial year. £0.38M of the remaining £1.25M have not been progressed because of the COVID-19 pandemic and are included within the COVID forecast variance reported in Table 2 above.

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|     | <b><u>Treasury Management</u></b>  |
| 8.  | <p>Treasury Management borrowing and investment balances as at 30 September 2021 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 forecast reduction in investment balances, net borrowing is expected to increase by £184.14M for 2021/22. This will change throughout the year as capital plans firm up and actual cash flow are known.</p> <p>The forecast cost of financing the council's loan debt is £16.54M of which £5.06M 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.</p>   |
| 9.  | <p>Although we currently do not have any short term debt, we anticipate borrowing before year end to replace maturing long term debt, expected reduction in reserves and to fund the forecast 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. This is later than previously reported as cash flows have remained higher than expected.</p>   |
| 10. | <p>The Council will continue to monitor the impact of COVID-19 on financial markets and provide updates via the Treasury Management reports to Governance Committee.</p>   |
| 11. | <p>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 2021. 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.</p>   |
|     | <b><u>Reserves &amp; Balances</u></b>  |
| 12. | <p>The General Fund Balance is currently £10.07M with no planned drawdown during the year.</p>   |
| 13. | <p>At the 31 March 2021, earmarked revenue reserves totalled £130.38M, plus Schools Balances totalling £4.17M. The balance at 31 March 2021 included revenue grants totalling £35.04M carried forward via the Revenue Grants Reserve - General, predominantly relating to COVID-19, which are expected to be used in 2021/22. The estimated forecast position as at the 31 March 2022 is £66.60M, plus Schools Balances forecast to be £2.30M (excluding the £1M deficit for the newly converted Academy noted in paragraph 15). The council holds a Medium Term Financial Risk Reserve (MTFR), 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'. The MTFR reserve is currently estimated as having a £38.41M balance unallocated. This reserve is also important as it creates capacity for transformation and invest to save measures and therefore enhances our financial resilience and sustainability.</p> |
|     | <b><u>Key Financial Risks</u></b>  |
| 14. | <p>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.</p>   |

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|     | <b><u>Schools</u></b>   |
| 15. | <p>As at 30 September 2021 there were 13 schools reporting a deficit balance totalling £3.2M Added to this, one school became an Academy on 1 September 2021, with a deficit of around £1M which will need to be covered by the Council under Government regulations and is included in the forecast use of corporate reserves. The total of deficits at quarter 2, including that of the new Academy school, is therefore around £4.2M, which compares with a forecast of £4.2M at the end of quarter 1.</p> <p>There are 30 schools reporting a surplus totalling £5.5M. The net position is therefore an overall surplus of £1.3M for schools, including the deficit from the Academy transfer.</p> <p>Two schools have been issued with notices of concern regarding their budget position. One has revised their budget to reduce the forecast deficit and the second is requiring the support of education and finance due to senior leadership changes. These schools will be carefully monitored and further actions cannot be ruled out to ensure improved financial management.</p> <p>All schools with deficit budgets continue to be supported by the Education Finance Team to develop Deficit Recovery Plans (DRP).</p>   |
| 16. | 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><u>Dedicated Schools Grant (DSG) 2021/22</u></b>   |
| 17. | <p>The forecast outturn for the Dedicated Schools Grant (DSG) as at the end of September 2021 is a £8.85M deficit, which includes £0.15M 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.</p> <p>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 commenced a strategic review of High Needs activity to manage SEND demand and is increasing pupil capacity within the City to avoid external placements, with provision within the General Fund capital programme related to this. The variance includes a brought forward deficit of £8.9M from the previous year, of which £8.0M is High Needs and £0.9M is from the impact of COVID-19 and lost fee income on Early Years. 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 12% increase in High Needs funding in 2021/22 and a £0.23M transfer from the schools block will mitigate some of the pressure being experienced but further work is needed to reduce costs where possible.</p> |
|     | <b><u>Financial Health Indicators</u></b>   |
| 18. | 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 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.

19. For Income Collection, the average day sales outstanding has increased from the quarter 1 position, mainly for Adult Social Care and commercial debt, where collection rates have slowed. This could well be the result of a temporary spike in the first quarter of customers paying debt that had accumulated during lockdown following the reopening of businesses. As things return to normal we are seeing the collection rate return to normal, thus an increase in the outstanding balances on some of these accounts.

The Creditor Payments figure shows the average for the quarter, actual performance for September 2021 was 89.03%. Opportunities to further increase consolidated invoicing to improve processing and approval times are being explored, along with continuing to remind managers to approve invoices in a timely fashion. A bi-weekly report is now being used to engage with users who have approvals and goods receipts notes that are outstanding for more than 30 days.

**Housing Revenue Account**

20. The current forecast position for the Housing Revenue Account on business as usual (BAU) activities for the year is projected to be a surplus of £0.92M. The forecast has worsened by £0.19M compared to the position as at the end of quarter 1. The BAU financial position is summarised in Table 3 below.

**Table 3 – Housing Revenue Account Business as Usual Forecast 2021/22**

|                                | <b>Budget<br/>Qtr 2<br/>£M</b> | <b>BAU<br/>Annual<br/>Forecast<br/>Qtr 2<br/>£M</b> | <b>BAU<br/>Forecast<br/>Variance<br/>Qtr 2<br/>£M</b> | <b>BAU<br/>Forecast<br/>Variance<br/>Qtr 1<br/>£M</b> | <b>BAU<br/>Variance<br/>Movement<br/>from Qtr 1<br/>£M</b> |
|--------------------------------|--------------------------------|---|---|---|--|
| Expenditure                    | 75.87                          | 74.73   | 1.14 F  | 1.11 F  | 0.03 F   |
| Income                         | (75.87)                        | (75.65)   | 0.22 A  | 0.00  | 0.22 A   |
| <b>(SURPLUS) /<br/>DEFICIT</b> | <b>0.00</b>                    | <b>0.92 F</b>                                       | <b>0.92 F</b>   | <b>1.11 F</b>   | <b>0.19 A</b>  |

NB Numbers are rounded

21. The current HRA forecast variance due to COVID-19 is a 0.57M favourable variance, which is no change compared to the position as at the end of quarter 1. The COVID-19 financial position is summarised in Table 4 below.

**Table 4 – Housing Revenue Account Forecast COVID-19 Variance 2021/22**

|                            | <b>COVID<br/>Forecast<br/>Variance<br/>Qtr 2<br/>£M</b> | <b>COVID<br/>Forecast<br/>Variance<br/>Qtr 1<br/>£M</b> | <b>COVID<br/>Variance<br/>Movement<br/>from Qtr 1<br/>£M</b> |
|----------------------------|---|---|--|
| Expenditure                | 0.57 F  | 0.57 F  | 0.00   |
| Income                     | 0.00  | 0.00  | 0.00   |
| <b>(SURPLUS) / DEFICIT</b> | <b>0.57 F</b>   | <b>0.57 F</b>   | <b>0.00</b>  |

NB Numbers are rounded

22. Further details, including explanations of significant movements in variances between quarter 1 and quarter 2 (in excess of £0.2M) are provided in Annex 1.6.

**Collection Fund**

23. Annex 1.7 shows the forecast outturn position for the Collection Fund at quarter 2, with the position summarised in Table 5.

**Table 5 – Collection Fund Forecast 2021/22**

|  | <b>Council<br/>Tax<br/>£M</b> | <b>Business<br/>Rates<br/>£M</b> | <b>Total<br/>£M</b> |
|--|-------------------------------|----------------------------------|---------------------|
| Contribution to previous years' estimated deficit  | (2.60)                        | (52.31)                          | (54.91)             |
| Net income and expenditure for 2021/22   | (1.59)                        | 20.01                            | 18.41               |
| <b>Surplus for the year</b>  | <b>(4.19)</b>                 | <b>(32.30)</b>                   | <b>(36.50)</b>      |
| Deficit brought forward from 2020/21   | 1.18                          | 50.68                            | 51.86               |
| <b>Overall Deficit/(Surplus) Carried Forward</b>   | <b>(3.01)</b>                 | <b>18.38</b>                     | <b>15.36</b>        |
| <b>SCC Share of Deficit/(Surplus)</b>  | <b>(2.55)</b>                 | <b>9.01</b>                      | <b>6.45</b>         |
| Less: SCC additional Government Grant for business rates reliefs   |                               | (12.54)                          | (12.54)             |
| <b>SCC Net Share of Deficit/(Surplus) after additional Government Grant</b>  | <b>(2.55)</b>                 | <b>(3.53)</b>                    | <b>(6.09)</b>       |
| Less: Estimated 2020/21 in-year deficit spread into 2023/24  | (0.22)                        | (0.98)                           | (1.20)              |
| <b>SCC Net Share of Deficit/(Surplus) after additional Government Grant to be taken into account in 2022/23 budget setting</b> | <b>(2.77)</b>                 | <b>(4.51)</b>                    | <b>(7.29)</b>       |

NB Numbers are rounded

24. The position on the Collection Fund as a whole is a deficit to be carried forward of £15.36M before extra Government grant. The deficit primarily relates to the

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|     | <p>Government's continuation of the business rates expanded retail and nursery discount schemes (100% relief for April – June 2021 and 66% relief for the remainder of the year), a total of £25.25M additional relief compared to the original estimate. These additional reliefs are being funded in full by Government grant. Without these additional reliefs there would have been a surplus for the year. This forecast is based on bills raised for 2021/22 as at the end of September 2021. The overall deficit has reduced by £6.23M compared to the position at quarter 1. This is largely due to a reduction in retail relief as some businesses are opting out of the relief scheme. As the retail reliefs are grant funded there has been a corresponding reduction in the forecast grant receivable.</p>   |
| 25. | <p>The table shows the net impact for SCC only as a forecast surplus of £6.09M, once the additional Government grant for extra business rates reliefs is factored in. This is a £0.44M improvement compared to the forecast at quarter 1. The surplus is a combination of a lower deficit being carried forward from 2020/21 into 2021/22 than had been estimated in January 2021 and better in-year performance due to fewer working age local council tax support claimants, less empty property business rates reliefs and a reduction in the amount required to be set aside for business rates appeals compared with what had been estimated. There is still uncertainty as to what effect, if any, the ending of the furlough scheme may have and also if other economic factors such as energy price increases and higher inflation will have an impact on Collection Fund performance. As a risk area to the SCC budget, financial trends will be carefully monitored.</p>   |
| 26. | <p>To reduce the financial impact in 2021/22 of exceptional losses arising in 2020/21 due to the COVID-19 pandemic, the government made regulations to require 2020/21 in-year deficits to be spread over 3 years. For SCC this means £1.20M of the deficit brought forward from 2020/21 is being carried over into 2023/24 and does not form part of the Collection Fund surplus/deficit to be taken into account in setting the 2022/23 budget.</p>  |
|     | <p><b>Conclusion and Outlook</b></p>   |
| 27. | <p>This is the second report on our financial forecast for 2021/22 and we continue to separate the variances arising from the COVID-19 pandemic from those for business as usual (BAU) activities to enable a clearer view of the financial impact of the pandemic.</p> <p>The Council continues to face significant financial pressure on BAU, much of it related to demand and cost pressures across social care, but particularly Children's services. This is a major contributing factor behind a £7.11M adverse variance forecast for the year as at quarter 2 for BAU.</p> <p>The on-going response to and recovery from the COVID-19 pandemic continues to be a major issue, both in terms of the Council's service provision, but also as a convenor and enabler of local partners, to ensure the best use of resources and improved outcomes for residents and communities. Budgetary pressure also continues to arise due to the pandemic, which is separately identified above and shows an adverse variance of £1.86M for portfolios. Losses of parking revenue, toll bridge fees and income from court cases to recover council tax and business rates are substantial factors behind the adverse variance. After allowing for the Government compensation and support for the extra administrative costs for dealing with COVID-19, estimated at £1.50M of funding, the net COVID-19 variance is estimated as £0.36M Adverse. Government's scheme of compensation for fees and charges income lost due to</p> |

COVID-19 ceased at the end of quarter 1, so any additional forecast reductions, over and above those currently factored into estimates, will produce a worsening forecast for the Council.

At a national level, the last quarter saw an announcement by Government on future funding for Adults Social Care. The Government paper highlights the government's plans for health care and adult social care along with details of the £12 billion for Health and Social Care per annum over the next 3 years. Within the paper there is a focus on tackling the backlog of medical care as a result of the pandemic. Whilst the intention to limit the costs of social care provision for those needing care is clear, the financial impact for local authorities and associated funding remains as yet unclear. We await any further details.

At the time of writing the Spending Review has just been announced on 27 October 2021, the outcome of which is still being analysed. A key headline is an additional £4.8bn in grant for local authorities over 3 years. However, an element of this will be needed for extra costs (such as the increase in National Insurance), and we have no details on what the Spending Review means for funding provided to local authorities from 1 April 2022. We will need to await the local government finance settlement in December for more information.

Pay award negotiations for 2021 continue, with the offer of a 1.75% increase being rejected by Trade Unions. A 0.5% assumption was made for pay, and provision set aside within centrally held budgets. Any agreement over this sum will be an additional cost strain, funded from centrally held budgets.

The Council is currently in a solvent position, however, the impact of the pandemic and demand in social care represents major risks. The forecast included in this quarterly report highlights the very major risks experienced from a strong demand level currently being experienced with Children's Services. Plans have been drawn up to mitigate this budget pressure, including baseline data and targets with milestones and clear accountability assigned for delivery. This plan will be regularly monitored to confirm delivery and allow for further corrective action if the situation does not improve as expected.

## **Annexes**

1. General Revenue Fund Forecast Qtr 2 2021/22
2. COVID-19 Government Grants
3. Treasury Management Qtr 2 2021/22
4. Key Financial Risk Register Qtr 2 2021/22
5. Health Indicators Qtr 2 2021/22
6. HRA Forecast Qtr 2 2021/22
7. Collection Fund Qtr 2 2021/22