REVENUE FINANCIAL MONITORING FOR THE PERIOD TO JUNE 2022

FINANCIAL POSITION

1. The current forecast spending against the Council's net General Fund revenue budget for the year is projected to be a £15.24M deficit. This is a significant and concerning adverse variance to be reporting so early in the year. This is summarised in Table 1 below.

Table 1 – General Revenue Fund Forecast 2022/23

	Budget Qtr 1 £M	Annual Forecast Qtr 1 £M	Forecast Variance Qtr 1 £M
Portfolios Net Expenditure	204.91	220.17	15.26 A
Non-Portfolio Net Expenditure	(11.87)	(11.87)	0.00
Net Revenue Expenditure	**193.05**	**208.31**	**15.26 A**
Financing	(193.05)	(193.07)	0.02 F
(Surplus) / Deficit for the year	**0.00**	**15.24**	**15.24 A**

NB Numbers are rounded

2. More detail, including explanations of significant variances as at quarter 1 (in excess of £0.2M) is provided in Annex 1.1.

3. The most significant adverse variance is in the Children & Learning portfolio, which is forecast to be in deficit by £9.19M. This deficit relates primarily to Looked After Children Provision (£5.63M), with placement numbers not reducing as planned, Home to School Transport (£1.58M), with increased numbers of eligible pupils, and agency staff costs within Specialist Core Services (£1.55M). £1.63M of the adverse variances in other portfolios relates to increased energy costs as inflationary pressure takes effect.

Mitigation plans are being worked on to reduce the forecast deficit. Ultimately any persisting deficit will need to be covered by corporate resources which would therefore reduce the council's future financial resilience and the resources available to help address the previously reported £23.4M budget shortfall in 2023/24 (identified at Council budget papers in February 2022), with this shortfall likely to have risen as inflationary pressures on costs take effect.

Implementation of Savings Proposals

4. Of the £9.09M savings plans included within the 2022/23 budget £3.91M (43%) have been achieved or are on track to be achieved before the end of this financial year. The balance of £5.18M (57%) are currently not forecast to be achieved and are included in the adverse variances reported for portfolios. These represent a risk until all management actions required to deliver the savings are complete.

	Treasury Management
5.	Treasury Management borrowing and investment balances as at 30 June 2022 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 forecast reduction in investment balances, net borrowing is expected to increase to £378.75M for 2022/23. This will change throughout the year as capital plans firm up and actual cash flow are known. The forecast cost of financing the council's loan debt is estimated at £17.36M of which £5.38M 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. These costs will be continually monitored, as traditionally there is some slippage with the capital programme each year that results in costs being pushed into later years. Any reduction in the budgeted costs for 2022/23 reflecting any slippage may help offset the large adverse position reported in table 1 above.
6.	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.
7.	The Council will monitor the impact of the high levels of inflation on financial markets and provide updates via the Treasury Management reports to Governance Committee.
8.	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 2022. The Council has operated within the agreed prudential indicators for the first 3 months of the year and is forecast to do so for the remainder of the year. The main changes from the revised Prudential and Treasury Management Codes published by CIPFA in December 2021 are outlined in Annex 1.2.
	Reserves & Balances
9.	The General Fund Balance is currently £10.07M with no planned drawdown during the year.
10.	At the 31 March 2022, earmarked revenue reserves totalled £96.19M, plus Schools Balances totalling £5.70M. The balance at 31 March 2022 included revenue grants totalling £18.11M carried forward via the Revenue Grants Reserve - General, of which £14.08M relate to COVID-19, which are expected to be used in 2022/23. The estimated forecast position as at the 31 March 2023 (excluding Schools Balances) is £57.00M. 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 £43.20M balance unallocated at the end of the end of the MTFS period. However this doesn't include any contribution towards the in-year deficit highlighted in paragraph 1. This reserve is also important as it creates some capacity for transformation and invest to save measures and therefore helps to provide both financial resilience and support financial sustainability. Any reduction in the MTFR reserve, such as applying it to cover the in-year deficit

	reported here, will reduce future financial resilience and the resource available to deal with future financial difficulties, including the budget shortfall of £23.4M currently reported for 2023/24.
	<u>Key Financial Risks</u>
11.	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.
	<u>Schools</u>
12.	Some schools have not yet agreed their budgets for 2022/23, so the forecast position for Schools' Balances is not available for this quarter and will be updated for quarter 2. One school became an academy on 1 May 2022, the accounts of which are being finalised. This school had a small surplus at the end of March 2022. Schools with deficit budgets continue to be supported by the School Finance Team to develop Deficit Recovery Plans (DRP). There is 1 school that has received a compulsory order to convert to an academy which has a forecast budget surplus of £0.06M.
13.	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.
	Dedicated Schools Grant (DSG) 2022/23
14.	The forecast outturn for the Dedicated Schools Grant (DSG) as at the end of June 2022 is a £10.09M cumulative deficit. The deficit is forecast to reduce by £1.0M compared with the position as at the end of 2021/22 due to additional funding coupled with managing demand through earlier intervention and providing additional places in special schools to reduce the number of pupils being placed in highly expensive placements in independent school settings. The Schools Budget is ring-fenced and the DSG deficit will not impact on the wider council services or council tax payers. This deficit is being driven by significant year on year increases in the number and complexity of Education Health Care Plans (EHCPs) and the increasing numbers of pupils with Special Educational Needs and Disability (SEND) being placed in highly expensive out of city placements in independent school settings. There is also pressure on Early Years funding from a reduction in children placed in Early Years settings. A review of the service provision is under way to reduce costs and increase income to mitigate the reduced funding.
	<u>Financial Health Indicators</u>
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 1.4 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.	For Treasury Management, rates for new long term borrowing are higher than budgeted and are on an upward trend. However, the higher interest rates are having a positive impact on investment income and this mitigates the impact on the revenue

budget.

For Income Collection, average days sales outstanding and outstanding debt more than 12 months old are below target. Performance is being impacted by resourcing the implementation of new systems as well as vacancies and staff absence within the debt collection team. Recovery of new debt is being prioritised over old (as more chance of recovery), with older debt aging further. Planned system improvements are expected to help improve performance.

For Creditor Payments, the percentage of valid and undisputed invoices paid within 30 days is below target. A bi-weekly report is being used to engage with users who have approvals and goods receipts notes that are outstanding for more than 30 days. In addition, data on reasons for delays is being produced on a regular basis to help take targeted action.

Housing Revenue Account

17. The Housing Revenue Account is forecast to have a nil variance against the budgeted deficit for the year, as summarised in Table 2 below.

Table 2 – Housing Revenue Account Forecast 2022/23

	Budget Qtr 1 £M	Annual Forecast Qtr 1 £M	Forecast Variance Qtr 1 £M
Expenditure	77.33	76.71	0.62 F
Income	(76.41)	(75.79)	0.62 A
(Surplus) / Deficit for the year	**0.92**	**0.92**	**0.00**

NB Numbers are rounded

18. Details of significant variances to budget are provided in Annex 1.5.

Collection Fund

19. Annex 1.6 shows the forecast outturn position for the Collection Fund at quarter 1, with the position summarised in Table 3.

Table 3 – Collection Fund Forecast 2022/23

	Council Tax £M	Business Rates £M	Total £M
Distribution of previous years' estimated surplus/(contribution towards estimated deficit)	2.92	(24.27)	(21.35)
Net income and expenditure for 2022/23	(0.22)	(5.87)	(6.09)
(Surplus)/Deficit for the year	**2.70**	**(30.14)**	**(27.44)**
(Surplus)/Deficit brought forward from 2021/22	(2.76)	17.11	14.35

	see table below

Overall (Surplus)/Deficit Carried Forward	**(0.06)**	**(13.03)**	**(13.09)**
SCC Share of (Surplus)/Deficit	**(0.05)**	**(6.38)**	**(6.43)**
Add: Variance in SCC Government grant income for business rates reliefs for 2022/23		2.31	2.31
Add: SCC Government grant income shortfall in 2021/22 due to deferral of CARF scheme to be repaid to reserves in 2023/24		4.43	4.43
SCC Net Share of (Surplus)/Deficit after Government Grant adjustments to be taken into account in 2023/24 budget setting*	**(0.05)**	**0.36**	**0.31**

NB Numbers are rounded

*£1.20M of the 2020/21 in-year deficit estimated at January 2021 is already included for 2023/24 in the Medium Term Financial Strategy (final year of the exceptional deficit required to be spread over 3 years).

20. The position on the Collection Fund as a whole is a surplus to be carried forward of £13.09M. Most of the surplus relates to business rates and comprises a £7.16M variance in the 2021/22 outturn deficit (excluding the £1.99M 2020/21 exceptional deficit being carried forward into 2023/24) and an in-year surplus of £5.87M. The deficit brought forward was lower than had been estimated in January 2022 mainly because reliefs under the COVID Additional Relief Fund (CARF) scheme announced in December 2021 were deferred until 2022/23. The in-year surplus is primarily due to lower retail, hospitality & leisure reliefs than had been estimated (£5.99M) and a reduction in the estimated provision required for appeals (£0.84M), offset by backdated CARF relief (£0.93M). This forecast is based on bills raised for 2022/23 as at the end of June 2022.

21. Both the retail, hospitality & leisure reliefs and CARF reliefs are funded by Government grant, so changes to these forecasts impact on the grant income receivable to the General Fund. The table shows the net impact for SCC only as a forecast deficit of £0.36M for business rates, once the adverse variance to Government grant for business rates relief for 2022/23 and the repayment to reserves for the 2021/22 shortfall in CARF grant income are factored in.

22. Significant uncertainty still underpins any estimate relating to the economic effects of high inflation and the cost of living crisis, together with any ongoing effects of the COVID-19 pandemic. As a risk area to the SCC budget, financial trends will be carefully monitored.

Conclusion and Outlook

23. This is the first report on our financial forecast for 2022/23. In the previous 2 financial years, budget variances arising from the COVID-19 pandemic were separated from those for business as usual activities (BAU) to enable a clearer view of the financial impact of the pandemic. The Government no longer requires regular COVID-19 financial monitoring data and it is becoming increasingly more difficult to directly link budget pressures to the pandemic, so the separation of variances has been discontinued.

24.	The Council faces severe financial pressures, not only from high demand for services, particularly within Children's & Learning, but also due to the impact of high levels of inflation. The pay award for 2022/23 has yet to be settled and the Trade Unions have called for an increase of around 11%. This compares with 2.5% provided for within the budget. Any award above the 2.5% allowed for would worsen the forecast deficit. The £15.24M adverse forecast reported in table 1 is clearly of significant concern, and represents around 7.9% of the Council's net budget. Mitigation measures are being planned and taken to offset this forecast, but should the adverse position materialise it could only be financed from reserves or balances held by the Council, reducing the Council's capacity to address future financial shocks and importantly reducing flexibility to use such resources to cope with our forecast future budget shortfalls.
25.	While the Council has sufficient reserves and contingency to meet these financial pressures in the short term, any use of these resources in 2022/23 would reduce the amount available to help address the shortfall between the Council's budgeted expenditure and anticipated funding in future years. The MTFS agreed in February 2022 showed a budget shortfall of £23.4M for 2023/24, which is highly likely to be exacerbated by the high demand for services and inflationary pressures currently being experienced.

Annexes

1. General Revenue Fund Forecast Qtr 1 2022/23
2. Treasury Management Qtr 1 2022/23
3. Key Financial Risk Register Qtr 1 2022/23
4. Health Indicators Qtr 1 2022/23
5. HRA Forecast Qtr 1 2022/23
6. Collection Fund Qtr 1 2022/23