	REVENUE FINANCIAL MONITORING FOR THE PERIOD TO SEPTEMBER 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 deficit of £9.59M after taking account of £4.02M agreed in-year savings. This is a significant adverse variance which has on-going consequences for the Council's financial sustainability. This is summarised in Table 1 below.

Table 1 – General Revenue Fund Forecast 2022/23

	Budget Qtr 2 £M	Annual Forecast Qtr 2 £M	Forecast Variance Qtr 2 £M	Forecast Variance Qtr 1 £M	Variance Movement from Qtr 1 £M
Portfolios Net Expenditure	213.34	229.57	16.23 A	15.26 A	0.97 A
Non-Portfolio Net Expenditure	(20.29)	(22.89)	2.60 F	0.00	2.60 F
Net Revenue Expenditure	**193.05**	**206.68**	**13.63 A**	**15.26 A**	**1.63 F**
Financing	(193.05)	(193.07)	0.02 F	0.02 F	0.00
(Surplus) / Deficit for the year	**0.00**	**13.61**	**13.61 A**	**15.24 A**	**1.63 F**
Further in-year savings agreed	0.00	(4.02)	4.02 F	0.00	4.02 F
(Surplus) / Deficit after in-year savings	**0.00**	**9.59**	**9.59 A**	**15.24 A**	**5.65 F**

NB Numbers are rounded

2.	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.
3.	The most significant adverse variance is in the Children & Learning portfolio, which is forecast to be in deficit by £9.43M. This deficit relates primarily to Pathways Through Care (£5.57M), with placement numbers not reducing as planned, Home to School Transport (£1.13M), with increased numbers of eligible pupils, and agency staff costs within Safeguarding (£1.81M). The Health, Adults & Leisure portfolio is also forecasting a £3.37M deficit after using £1.91M of reserves to help meet pressures, relating mainly to increases in the costs of care packages. £2.29M of the adverse variances for portfolios relates to increased energy costs. Mitigation plans to reduce the forecast deficit have been developed and put into action, however are unlikely to reduce the deficit in full. In-year savings of around £4.02M have been agreed so far to help reduce the deficit, as shown in Table 1. Ultimately any persisting deficit would need to be covered by corporate resources

	which would therefore impact on the council's future financial resilience and the resources available to help address the revised £28.90M budget shortfall in 2023/24 noted in the Budget Update report to Cabinet on 8 November 2022.
	Implementation of Savings Proposals
4.	Of the £9.09M savings plans included within the 2022/23 budget £3.56M (39%) have been achieved or are on track to be achieved before the end of this financial year. The balance of £5.53M (61%) are currently not forecast to be achieved and are included in the adverse variances reported for portfolios, with the majority being within Children & Learning. These represent a risk until all management actions required to deliver the savings are complete or alternative savings achieved.
	Treasury Management
5.	Treasury Management borrowing and investment balances as at 30 September 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 £298.52M 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 £16.71M of which £5.49M 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.
6.	Although we currently do not have any short term debt, we anticipate borrowing short term before year end to replace maturing long term debt, expected reduction in reserves and to fund the 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.
7.	The Council will continue to monitor the financial markets closely, given recent turbulence and market uncertainty, 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 6 months of the year and is forecast to do so for the remainder of the year.
	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 £20.93M carried forward via the Revenue Grants Reserve - General, of which £16.89M relate to COVID-19. All of the grants carried forward are expected to be used in 2022/23. The estimated forecast position as at the 31 March 2023 (excluding Schools Balances) is £52.15M. This doesn't include the cumulative deficit on the Dedicated Schools Grant which is being held in a separate account as noted in paragraph 14. The council holds a Medium Term Financial Risk (MTFR) Reserve, 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'.

	£1.91M being held in the MTFR Reserve for Adult Social Care cost pressures has been applied this quarter. The MTFR reserve is currently estimated as having a £41.19M balance unallocated at the end of the end of the MTFS period, however this doesn't include any contribution towards the remaining in-year deficit highlighted in paragraph 1 or budget shortfall for 2023/24. 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.
	Key Financial Risks
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.
	Schools
12.	As at 30 September 2022 there were 11 schools reporting a deficit balance totalling £4.2M which compares to deficits totalling £3.6M at the end of the last financial year (2021/22). There are 30 schools forecasting a surplus balance of £6.4M which compares to surpluses totalling £9.3M at the end of the last financial year. The net position is therefore a £2.2M surplus. Three schools have been issued with notices of concern regarding their budget position. Support and guidance are being provided by council services to assist the schools to develop Deficit Recovery Plans (DRP). These schools will be carefully monitored and further actions cannot be ruled out to ensure improved financial management.
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 September 2022 is a £10.24M cumulative deficit. The deficit is forecast to increase by £0.2M compared with the position as at the end of quarter 1 due to higher demand and an increase in unit costs. The deficit is being driven primarily by the significant year on year increases in Education Health Care Plans (EHCPs) and with higher levels of needs in these plans. The Special Education Needs & Disabilities (SEND) team have an ongoing strategic review of the High Needs activity to manage demand for SEND services. This includes increasing resources for 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. An increase in pressures on High Needs services continue as a nationally recognised issue with significant pressures being reported in most local authorities. The increase in High Needs funding in 2022/23 will help mitigate some of the pressure being experienced and further work is being undertaken as part of the DfE programme Delivering Better Value in SEND. The Schools Budget is ring-fenced and presently the DSG deficit is subject to a statutory override which means that the deficit will not impact on the wider council services or council tax payers. The statutory override is in place until March 2023.

	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 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 partly mitigates the impact on the revenue budget. A review of the General Fund capital programme has taken place in an effort to reduce the borrowing need in year. For Income Collection, average days sales outstanding and outstanding debt more than 12 months old are below target, however performance has improved since quarter 1. 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). 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 and performance has deteriorated since quarter 1. A dashboard is being developed to better identify non-compliance and to help target training to improve performance.
	Housing Revenue Account
17.	The Housing Revenue Account is forecast to have a nil variance against the budgeted deficit for the year, no movement from the position reported at quarter 1, as summarised in Table 2 below.

Table 2 – Housing Revenue Account Forecast 2022/23

	Budget Qtr 2 £M	Annual Forecast Qtr 2 £M	Forecast Variance Qtr 2 £M	Forecast Variance Qtr 1 £M	Variance Movement from Qtr 1 £M
Expenditure	77.33	76.71	0.62 F	0.62 F	0.00
Income	(76.41)	(75.79)	0.62 A	0.62 A	0.00
(Surplus) / Deficit for the year	**0.92**	**0.92**	**0.00**	**0.00**	**0.00**

NB Numbers are rounded

18.	Details of significant movements in variances between quarter 1 and quarter 2 are provided in Annex 1.5.
	Collection Fund
19.	Annex 1.6 shows the forecast outturn position for the Collection Fund at quarter 2, 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	(0.45)	0.43	(0.02)
(Surplus)/Deficit for the year	**2.47**	**(23.84)**	**(21.38)**
(Surplus)/Deficit brought forward from 2021/22	(2.76)	17.11	14.35
Overall (Surplus)/Deficit Carried Forward	**(0.29)**	**(6.73)**	**(7.03)**
SCC Share of (Surplus)/Deficit	**(0.25)**	**(3.30)**	**(3.55)**
Add: Variance in SCC Government grant income for business rates reliefs for 2022/23		(1.18)	(1.18)
Add: SCC Government grant income shortfall carried forward from 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*	**(0.25)**	**(0.05)**	**(0.29)**

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 £7.03M. Most of the surplus relates to business rates and comprises a £7.16M favourable variance in the 2021/22 outturn deficit (after excluding the £1.99M 2020/21 exceptional deficit being carried forward into 2023/24) and an in-year deficit of £0.43M. 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 deficit is primarily due to backdated CARF relief (£8.89M), offset by lower retail, hospitality & leisure reliefs (£6.17M) and empty property relief (£2.17M) than estimated when the budget was set. This forecast is based on bills raised for 2022/23 as at the end of September 2022.

21. Both the CARF and retail, hospitality & leisure 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 surplus of £0.05M for business rates, once the variance to Government grant for business rates relief for 2022/23 and the repayment to reserves for the shortfall in CARF grant income carried forward from 2021/22 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.	Despite actions being taken to help address the financial position a significant forecast deficit remains. The council continues to face 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 Local Government Employer's offer of a flat rate increase of £1,925 (equivalent to 5.6% for the council) is being considered by the trade unions. This compares with 2.5% provided for within the budget. Although this additional cost could be accommodated within the contingency budget, this would wipe out the contingency budget for future years.
24.	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 Budget Update report to Cabinet on 8 November 2022 showed a budget shortfall of £28.90M for 2023/24, even after draft savings proposals are taken into account, due to the high demand for services and inflationary pressures currently being experienced.

Annexes

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