

REVENUE OUTTURN 2022/23

1. This report summarises the outturn position and variances to budget for the General Fund Revenue Account, Housing Revenue Account and Collection Fund and highlights any significant changes since the financial monitoring position reported to Cabinet at its meeting on 21 February 2023 (at quarter 3).

GENERAL FUND REVENUE ACCOUNT - SUMMARY

2. The overall outturn for the General Fund Revenue Account was a deficit of £11.38M, requiring a transfer from reserves to bring the revenue account back into balance.

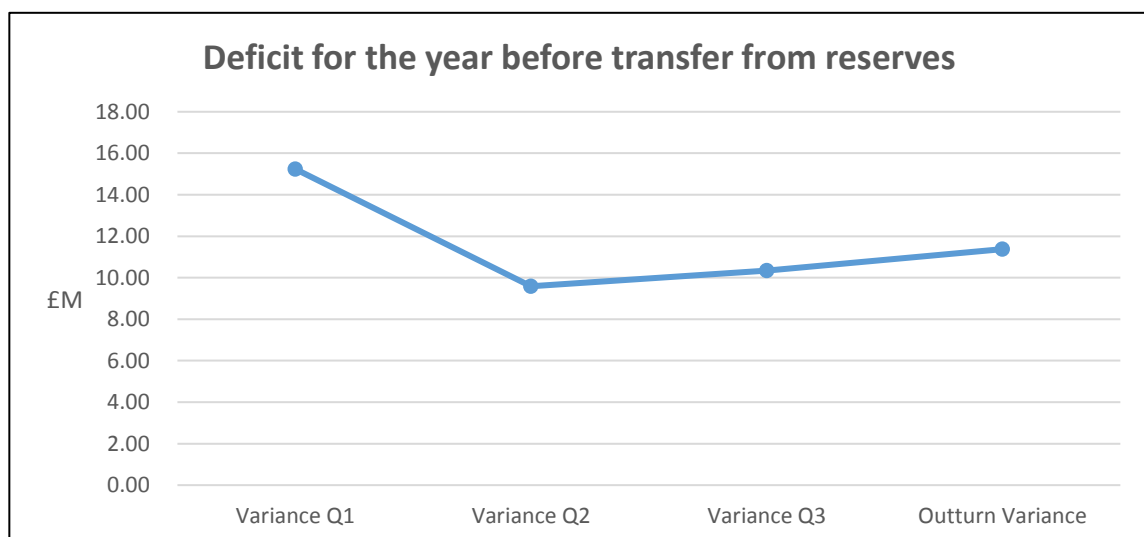
Table 1 – General Fund Revenue Account 2022/23

	Final Budget £M	Outturn £M	Outturn Variance £M
Portfolios Net Expenditure	218.04	238.58	20.54 A
Non-Portfolio Net Expenditure	(24.75)	(31.39)	6.63 F
Net Revenue Expenditure	193.29	207.19	13.90 A
Financing	(193.29)	(195.81)	2.52 F
Deficit for the year before transfer from reserves	0.00	11.38	11.38 A
Transfer from Reserves – Year End Deficit		(11.38)	11.38 F
(Surplus) / Deficit for the year	0.00	0.00	0.00

Numbers are rounded

3. Chart 1 below shows the trend in the forecast variance over the course of the year. This shows a reduction in the adverse variance following agreement of in-year savings plans at quarter 2, however a worsening of the overall position in the latter part of the year as new budget pressures emerged.

Chart 1 – General Fund forecast variance over 2022/23



4.	<p>£15.57M of the portfolios adverse outturn variance relates to Children & Learning. The two biggest elements within this adverse variance are Pathways Through Care (£6.42M) due to placement numbers and costs not reducing as planned, and Home to School Transport (£4.13M) driven by increased numbers of eligible pupils with an Education, Health and Care Plan (EHCP) and increased unit costs for transport. The Health, Adults & Leisure portfolio also has an adverse of £5.86M, of which £3.86M is for increased costs for Adults' long term care relating to the revised discharge to assess process. Expenditure pressures expected to be on-going from 2022/23 were taken into account in the Medium Term Financial Strategy (MTFS) for 2023/24 to 2026/27 agreed at Council in February 2023. Those that emerged after the 2023/24 budget was set are reflected in the revised MTFS report elsewhere on this agenda.</p>
5.	<p>Of the £9.09M savings plans within portfolio budgets agreed in February 2022 £3.53M (39%) were achieved during the year and £5.56M (61%) were not. £4.52M of the unachieved savings relate to Children & Learning for the reasons noted above. Savings plans were reassessed as part of the 2023/24 budget setting process and those considered unachievable were taken into account within budget pressures. Unachievable savings that have emerged since the budget was set are reflected in the review of the Medium Term Financial Strategy.</p>
6.	<p>The £6.63M favourable outturn variance on non-portfolio net expenditure is primarily from a reduction in capital financing costs following a review of the capital programme and release of the agreed in-year savings that were being held centrally.</p>
7.	<p>Further details of outturn variances and significant movements since quarter 3 are provided in Annex 1.1.</p>
<p><u>Carry Forwards</u></p>	
8.	<p>In view of the overall outturn deficit on the General Fund Revenue Account no budgets are being carried forward from 2022/23 into 2023/24. In accordance with accounting requirements, £3.95M of unspent specific revenue grant funding is being carried forward via the Revenue Grants Reserve to be used in 2023/24. In addition, £1.32M of S31 Business Rates Grant is being carried forward in line with the MTFS agreed in February 2023 and noted in the quarter 3 financial monitoring report, and approval is sought to carry forward £0.16M of other un-ringfenced revenue grants that have been requested - £0.13M given for streamlining adult social care assessments and £0.03M for enforcing cladding regulations.</p>
<p><u>Property Investment Fund</u></p>	
9.	<p>As part of the scheme of delegation it was agreed the performance of the Property Investment Fund would be reported at outturn stage to Full Council. Annex 1.2 gives the details of this fund and Cabinet is asked to recommend Council note the performance.</p>
10.	<p>There have been no additional purchases during the year. The rate of return on investment in 2022/23 before borrowing costs and other on-costs was 5.74%. Borrowing costs of 3.90% were incurred giving a net rate of return of 1.84%. All of the properties remain fully let and the tenants are meeting their financial obligations under the leases (although one tenant has vacated the premises but continues to honour the lease).</p>
11.	<p>Investment properties are required to be revalued every year. The current valuation for those within the Property Investment Fund is £23.83M, a decrease in value compared with last year of £1.86M (an increase in value of £1.42M was reported for 2021/22).</p>

Under current accounting rules changes in the value of investment properties do not impact on the General Fund.

Treasury Management

12. The Treasury Management outturn for 2022/23 will be reported to Governance Committee on 24 July 2023.

Dedicated Schools Grant (DSG) and Schools

13. The Dedicated Schools Grant is a ring-fenced grant and balances are carried forward each year. There was a £0.99M in-year surplus for 2022/23, reducing the cumulative deficit to £10.10M, as shown in Table 2 below.

Table 2 – DSG Outturn

	£M
Deficit carried forward from 2021/22	11.09
Net surplus in year	(0.99)
Balance to carry forward	10.10

Numbers are rounded

14. The DSG deficit has been driven by increased numbers and complexity of Education and Health Care Plans (EHCPs). Pressures on High Needs services is a nationally recognised issue with significant pressures being reported in most local education authorities. 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. The increase in High Needs funding in 2022/23 also helped to mitigate some of the pressure being experienced. Further work is being undertaken as part of the Department for Education (DfE) programme Delivering Better Value in SEND which aims to support the achievement of goals and aspirations of children without the need for an EHCP and in a mainstream setting rather than in a special school.

15. The Schools Budget is ringfenced and the DSG deficit will not impact on the wider Council services or council tax payers unless there is a change in Government policy. In accordance with regulations, the deficit that accumulated up to the end of 2021/22 is being held within an unusable reserve so that it does not form part of the balance on earmarked revenue reserves. Regulations stipulate that only in-year deficits can be added to this unusable reserve. The in-year surplus for 2022/23 is included within earmarked revenue reserves.

16. There are 12 schools (out of 42 schools maintained by the Council) reporting a deficit balance as at the 31 March 2023 as shown in Table 3 below. This is one less than the number of schools reporting a deficit as at the previous year end but the total deficit has increased by £0.82M. During the year three schools cleared their deficits and four schools went into deficit from a surplus position. The latter includes one school that converted to an academy during 2022/23 and the Council will have to meet the £0.03M deficit balance.

Table 3 – Schools in Deficit

	2021/22		2022/23	
	Deficit £M	No. of Schools	Deficit £M	No. of Schools
Primary/Nursery	2.70	10	3.05	9
Secondary/Other	0.93	3	1.40	3
Total	3.63	13	4.45	12

Numbers are rounded

17. During 2022/23 three schools were issued with a Notice of Concern regarding their financial performance and accumulated deficit. One of these schools managed to reduce the level of their deficit by 31 March 2023. At the time of writing the Council is still waiting for a deficit recovery plan from this school to demonstrate how further reductions in the deficit will be achieved. One of the other two schools has produced a deficit recovery plan which the Council has accepted.
- The Schools Finance team are working with schools and providing advice on areas where the schools need to make changes to return to surplus. It is recommended that further advice and support is provided by the Director of Education to ensure robust deficit recovery plans are put in place for all schools.

Reserves & Balances

18. The General Fund balance stands at £10.07M, which is in line with the February 2023 Medium Term Financial Strategy (MTFS).
19. Earmarked revenue reserves totalled £55.05M at the end of 2022/23, comprising £5.46M of schools' balances and £49.59M other revenue reserves. This is an overall reduction of £46.84M compared with the £101.89M total reserves at the end of 2021/22. The balance at the end of 2021/22 included £20.93M of revenue grant funding being carried forward via reserves, of which £14.08M related to COVID-19. The balance at the end of 2022/23 includes £5.43M of revenue grants being carried forward.
20. The balance on the Medium Term Financial Risk Reserve has reduced by £28.70M over the year, from £57.05M down to £28.35M. Of this, £12.66M was planned net use per the MTFS agreed in February 2022, £11.38M was to meet the year-end deficit, £4.43M to manage timing differences relating to receipt of S31 grant for business rates reliefs (budgeted to be repaid to the reserve in 2023/24), and other net transfers from the reserve of £0.23M.
21. Further details of the year end balances and the changes since the quarter 3 position are set out in Annex 1.3. The main changes to the position as at quarter 3 are:
- A further £4.11M of revenue grants being carried forward via reserves compared with the forecast at quarter 3, as noted in paragraph 8;
 - An in-year surplus of £0.99M on the Dedicated Schools Grant being transferred to earmarked reserves, as noted in paragraph 15.

HOUSING REVENUE ACCOUNT (HRA)

22. The HRA had a deficit of £0.92M in 2022/23 as had been planned for the year and as summarised in Table 4 below. The planned deficit of £0.92M was met from a carry

forward of a planned surplus in 2021/22, such that by the end of 2022/23 the HRA balance has returned to £2M.

Further details on significant variances to budget and movements since quarter 3 are provided in Annex 1.4.

Table 4 – Housing Revenue Account Outturn 2022/23

HRA	Final Budget £M	Outturn £M	Outturn Variance £M
Expenditure	77.33	75.99	1.34 F
Income	(76.41)	(75.07)	1.34 A
(Surplus) / Deficit for the year	0.92	0.92	0.00

Numbers are rounded

COLLECTION FUND (for Council Tax and Business Rates)

23. Proceeds from local council tax and business rates are paid into the Collection Fund operated by the City Council, and then paid out to meet the net budgeted amounts of not only Southampton City Council, but also the Hampshire and Isle of Wight Police & Crime Commissioner and Hampshire and Isle of Wight Fire & Rescue Authority. Government also receives a 50% share of the proceeds from the local business rates collected.

24. The outturn for the Collection Fund as a whole is an overall surplus of £12.30M, as shown in Annex 1.5 and summarised in Table 5. The table shows a comparison of the outturn position with the revised estimate at quarter 3 which was taken into account in setting the 2023/24 budget.

Table 5 – Overall Collection Fund (Surplus)/Deficit Carried Forward

	Outturn £M	Quarter 3 Revised Estimate £M	Movement from Qtr 3 £M
Council Tax	0.90	0.31	0.59 A
Business Rates	(13.20)	(3.45)	9.76 F
Total	(12.30)	(3.14)	9.16 F

Numbers are rounded

25. The increase in the council tax deficit is mainly from a higher contribution to the amount set aside for doubtful debts (£0.41M).

26. The improvement in the business rates surplus is largely due a reduction in the amount set aside for losses from successful appeals against rateable values (£11.28M), as the window for commencing action against the 2017 rating list closed at 31 March 2023 and the anticipated level of appeals did not materialise. Added to this was a reduction in the contribution to the amount set aside for doubtful debts (£0.63M). These favourable variances were offset by a reduction in business rates income (£2.04M).

27. The net impact for Southampton City Council (SCC) alone is shown in Table 6.

Table 6 – SCC Share of Collection Fund (Surplus)/Deficit 2022/23

	Council Tax £M	Business Rates £M	Total £M
Outturn - SCC share of (Surplus)/Deficit	0.76	(6.47)	(5.71)
Add: Variance in SCC government grant income for business rates reliefs for 2022/23		(1.32)	(1.32)
Add: shortfall in SCC government grant income carried forward from 2021/22 due to deferral of the CARF* scheme, to be repaid to reserves in 2023/24		4.43	4.43
Outturn - SCC net share of (Surplus)/Deficit after government grant adjustments	0.76	(3.36)	(2.60)
Quarter 3 Revised Estimate SCC net share of (Surplus)/Deficit after government grant adjustments	0.26	1.43	1.69
Movement from quarter 3	0.50 A	4.79 F	4.29 F

Numbers are rounded

*COVID Additional Relief Fund

28. The Council's share of the estimated deficit at quarter 3 after adjusting for government grant for business rates reliefs was taken into account in setting the 2023/24 General Fund revenue budget in February 2023. The outturn position shows a favourable variance of £4.29M compared with the quarter 3 revised estimate. Under the arrangements for operating the Collection Fund, differences between the outturn position and the estimates used when setting the budget for the next year are reflected in the following year's estimates. This favourable variance will therefore be taken into account in setting the 2024/25 General Fund revenue budget.

29. The 2022/23 General Fund budget included the Council's share of the estimated deficit on the Collection Fund in 2021/22 arising from COVID Additional Relief Fund (CARF) business rate reliefs, to be met from compensation grant that was assumed to be receivable in 2021/22 and carried forward via reserves. Due to the deferment of the award of the reliefs no grant was received in 2021/22, however the charge to the General Fund in 2022/23 remained as it was based on the estimate made in January 2022 and not the outturn position. Grant income has been received in 2022/23 to match the award of the reliefs during the year and forms part of the variance in SCC government grant income shown in table 6 above. The timing differences relating estimates and actuals for CARF relief and associated grant income have been managed via reserves and unwind in 2023/24.

Conclusion

30. The Council's formal 2022/23 Statement of Accounts is subject to external audit, after which it will be submitted for approval by the Governance Committee.

31.	<p>The Council experienced severe financial pressures during 2022/23, not only from continued high demand for services, particularly within Children & Learning, but also due to the impact of high levels of inflation and pay increases. Despite actions being taken to help address the financial position a significant deficit remained at year end which had to be met from revenue reserves. This, alongside the planned use of reserves to balance the 2023/24 budget, has severely weakened the Council's financial resilience. It is imperative that the council reduces its expenditure in line with the funding available and delivers on the savings proposed. The MTFS Update report elsewhere on this agenda sets out the approach being taken to return the Council to a sustainable financial footing.</p>
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Annexes

1. General Fund Revenue Account Outturn 2022/23
2. Property Investment Fund 2022/23
3. Earmarked Reserves 2022/23
4. Housing Revenue Account Outturn 2022/23
5. Collection Fund Outturn 2022/23