

## REVENUE FINANCIAL MONITORING FOR THE PERIOD TO JUNE 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 £2.69M deficit. In addition, there is a surplus of £0.04M on COVID-19 pandemic budgets. This is summarised in Table 1 below.

**Table 1 – General Revenue Fund Forecast 2021/22**

	<b>Budget Qtr 1 £M</b>	<b>BAU Annual Forecast Qtr 1 £M</b>	<b>BAU Forecast Variance Qtr 1 £M</b>	<b>COVID Forecast Variance Qtr 1 £M</b>
Portfolios Net Expenditure	199.80	202.48	2.69 A	1.03 A
Non-Portfolio Net Expenditure	(25.94)	(25.94)	0.00	0.00
<b>Net Revenue Expenditure</b>	<b>173.85</b>	<b>176.54</b>	<b>2.69 A</b>	<b>1.03 A</b>
Financing	(173.85)	(173.85)	0.00	1.08 F
<b>(Surplus) / Deficit for the year</b>	<b>0.00</b>	<b>2.69</b>	<b>2.69 A</b>	<b>0.04 F</b>

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 on business as usual activities is in the Children's Social Care portfolio, which is forecast to be in deficit by £1.52M. This deficit relates to Looked After Children Provision, with increased numbers and cost of residential placements and higher numbers of Special Guardianship Orders. Opportunities to mitigate deficits will be investigated by services. Ultimately any persisting deficit will need to be covered by reserves which would therefore impact on the council's future financial resilience.
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 Growth portfolio, which is forecasting a COVID-19 deficit of £0.71M, most of which is the continuing impact of restrictions on Off Street Parking income. However, the Council is expecting to receive a total of £1.08M of fees and charges losses compensation grant for the first quarter of 2021/22 which will help to offset this income shortfall.

5.	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.
	<b><u>Implementation of Savings Proposals</u></b>
6.	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 1 above.
	<b><u>Treasury Management</u></b>
7.	Treasury Management borrowing and investment balances as at 30 June 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 £184.18M for 2021/22. We anticipate borrowing from September onwards to replace maturing long term debt (£11M), expected reduction in reserves (£90M) and to fund the forecast capital programme for the year (£83M). The major capital projects include Schools Investment £18M, Highways £10M, Vehicle replacement £5M, Investing in New Homes £12M and Investing in Existing HRA Stock £16M.
8.	Short term interest rates have remained low and are likely to do so for the remainder of the year. It is anticipated that short term borrowing will be undertaken from September onwards to take advantage of these low rates.
9.	Government grant support for businesses during the pandemic administered by the Council has resulted in higher than expected cash flow during the first quarter of the year. Investment balances are currently running at £55.8M however are expected to fall during the year.
10.	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.
11.	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 3 months of the year and is forecast to do so for the remainder of the year.
	<b><u>Reserves &amp; Balances</u></b>
12.	The General Fund Balance is currently £10.07M with no planned drawdown during the year.
13.	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 £61.73M, plus Schools Balances forecast to be £1.00M. 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 £38.3M 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.
	<b><u>Key Financial Risks</u></b>
14.	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.
	<b><u>Schools</u></b>
15.	<p>As at 30 June 2021 there were 14 schools reporting a deficit balance totalling £4.5M. This is an increase of 1 school compared to the position reported at 31 March 2021. There are 30 schools reporting a surplus totalling £5.5M. The net position is therefore an overall surplus of £1.0M which is £2.3M adverse movement from the year end position.</p> <p>Schools with deficit budgets continue to be supported by the Education Finance Team to develop Deficit Recovery Plans (DRP). There are 2 schools scheduled to transfer to academy status. Two of these conversions are compulsory orders and planned to take place in September and October 2021. The two compulsory conversions have a combined budget deficit position forecast of between £1.0M - £1.2M for which the Council will need to pay 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 as far as possible.</p> <p>The increase in the school's deficits is mainly due to delayed staff restructures due to COVID-19. Two schools will be issued with notices of concern.</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>Dedicated Schools Grant (DSG) 2021/22</b>
17.	<p>The Forecast outturn for the Dedicated Schools Grant (DSG) as at the end of June 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.	<p>For Income Collection, the impact of COVID-19 on those paying commercial rent is seen in both the average day sales outstanding and outstanding debt more than 12 months old. Payment plans are being negotiated on a case by case basis (e.g. payment in instalments and/or over a period longer than one financial year).</p> <p>The Creditor Payments figure shows the average for the quarter. Performance has improved since April, with June actual performance being 90.4%. This improvement has been driven by an increase in consolidated (bulk) invoicing which has in turn improved processing and approval times. Opportunities to further increase consolidated invoicing are being explored, along with continuing to remind managers to approve invoices in a timely fashion.</p>
	<b><u>Housing Revenue Account</u></b>
20.	The forecast position for the Housing Revenue Account on business as usual (BAU) activities for the year is projected to be a surplus of £1.11M as summarised in Table 2 below. In addition, there is a forecast surplus of £0.57M relating to the COVID-19 pandemic.

**Table 2 – Housing Revenue Account Forecast 2021/22**

	<b>Budget Qtr 1 £M</b>	<b>BAU Annual Forecast Qtr 1 £M</b>	<b>BAU Forecast Variance Qtr 1 £M</b>	<b>COVID Forecast Variance Qtr 1 £M</b>
Expenditure	75.87	74.76	1.11 F	0.57 F
Income	(75.87)	(75.87)	0.00	0.00
<b>(Surplus) / Deficit for the year</b>	<b>0.00</b>	<b>(1.11)</b>	<b>1.11 F</b>	<b>0.57 F</b>

NB Numbers are rounded

21. The most significant favourable variance to budget on business as usual activities relates to Cyclical Maintenance (£0.80M). The COVID-19 favourable variance relates to Supervision & Management. Further details are provided in Annex 1.6.

**Collection Fund**

22. Annex 1.7 shows the forecast outturn position for the Collection Fund at Quarter 1, with the position summarised in Table 3.

**Table 3 – Collection Fund Forecast 2021/22**

	<b>Council Tax £M</b>	<b>Business Rates £M</b>	<b>Total £M</b>
Contribution to previous years' estimated deficit	(2.60)	(52.31)	(54.91)
Net income and expenditure for 2021/22	(0.88)	25.52	24.64
<b>Deficit for the year</b>	<b>(3.48)</b>	<b>(26.79)</b>	<b>(30.27)</b>
Deficit brought forward from 2020/21	1.18	50.68	51.86
<b>Overall Deficit/(Surplus) Carried Forward</b>	<b>(2.30)</b>	<b>23.89</b>	<b>21.59</b>
<b>SCC Share of Deficit/(Surplus)</b>	<b>(1.95)</b>	<b>11.71</b>	<b>9.75</b>
Less: SCC additional Government Grant for business rates reliefs		(15.41)	(15.41)
<b>SCC Net Share of Deficit/(Surplus) after additional Government Grant</b>	<b>(1.95)</b>	<b>(3.70)</b>	<b>(5.65)</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>(2.17)</b>	<b>(4.68)</b>	<b>(6.85)</b>

NB Numbers are rounded

23.	<p>The position on the Collection Fund as a whole is a deficit to be carried forward of £21.59M <u>before</u> extra Government grant. The deficit primarily relates to the 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 £31.20M 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 June 2021.</p>
24.	<p>The table shows the net impact for SCC only as a forecast surplus of £5.65M, once the additional Government grant for extra business rates reliefs is factored in. This 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. The latter in part stems from a ministerial announcement to legislate to prohibit appeals relating to COVID-19 restrictions. However, significant uncertainty still underpins any estimate relating to the economic effects of COVID-19 as the country emerges from lockdown measures plus the winding down of the furlough scheme job retention measures due to end in September 2021. As a risk area to the SCC budget, financial trends will be carefully monitored.</p>
25.	<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>
26.	<p>It remains to be seen what impact the ending of COVID-19 restrictions and the winding down of some Government support schemes (e.g. the furlough scheme) has on Collection Fund income.</p>

	<b>Conclusion and Outlook</b>
27.	<p>This is the first report on our financial forecast for 2021/22 and we continue to endeavour to separate the impact of the COVID-19 pandemic from the Council agreed business as usual (BAU) budgets; to enable a clear view of the financial impact the pandemic has caused.</p> <p>The Council continues to face significant financial pressure on BAU, much of it related to demand and cost pressures in social care (both Adults and Children). This is a major contributing factor behind a £2.7M adverse variance forecast at quarter 1. Budgetary pressure also continues to arise due to the pandemic, which is separately identified above and totals £1.03M as a gross cost, with losses of parking revenue and toll bridge fees being substantial factors. After allowing for the Government compensation, estimated at £1.08M, the net position with COVID-19 costs becomes broadly neutral at £0.04M Favourable. Government's scheme of compensation for income losses attributable to COVID-19 ceases this quarter, so any additional forecast reductions will produce a worsening forecast for the Council.</p> <p>Accordingly, as the country moves forward with the easing of lockdown restrictions, the future remains uncertain as the longer-term financial impact of the pandemic becomes clearer on the services the Council provides to residents as well as the impact on businesses and residents livelihoods. The Council is currently in a solvent position, however, the impact of the pandemic including any pent-up demand in social care and the impact of business rates as the normalisation of the business sector begins continues to be major issues and financial risk.</p>

## **Annexes**

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