BRIEFING PAPER

SUBJECT: REVENUE FINANCIAL MONITORING FOR THE PERIOD TO THE END OF JUNE 2023

DATE: 10 AUGUST 2023

RECIPIENT: OVERVIEW AND SCRUTINY MANAGEMENT COMMITTEE

THIS IS NOT A DECISION PAPER

SUMMARY:

The report to be considered at the 15 August meeting of Cabinet summarises the General Revenue Fund, Housing Revenue Account (HRA) and Collection Fund financial position for the council as at the end of June 2023.

The current forecast General Revenue Fund deficit for the year is £20.91M. This is after taking account of £9.08M agreed in-year cost control measures. The forecast is based on the worst case scenario for expenditure pressures on the budget.

The most significant forecast deficits are for the Children & Learning directorate (£8.93M) and the Wellbeing & Housing directorate (£6.43M).

The MTFS Update report to Cabinet and Council in July set out the financial strategy adopted including actions being taken to reduce expenditure to within budget for 2023/24 and to achieve a sustainable budget for future years.

A considerable amount of further cost control measures need to be found alongside the delivery of savings. Work is continuing at pace on delivery plans for further cost control measures that have been identified to help with the forecast in-year deficit for 2023/24 and on developing additional proposals to assist in meeting the future budget shortfalls.

BACKGROUND and BRIEFING DETAILS:

Revenue 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 £20.91M after taking account of £9.08M agreed in-year cost control measures. The forecast is based on the worst case scenario for expenditure pressures on the budget, with demand led pressures in particular being subject to some uncertainty. The position is summarised in Table 1.
2. Children & Learning has the most significant adverse variance and is forecast to be in deficit by £8.93M (14.0%). The biggest elements within this are Home to School Transport (£4.43M), with a sharp increase in the unit costs for transport as well as increased numbers of eligible pupils, and Children Looked After (£2.45M) relating to demand pressures on placement spend.
3. The forecast deficit for Wellbeing & Housing is £6.43M (7.0%), primarily relating to Adults Long-Term (£5.40M), due to a forecast increase in client numbers and higher costs for care packages.

BRIEFING PAPER

Table 1 – General Revenue Fund Forecast 2023/24

	Budget Qtr 1 £M	Annual Forecast Qtr 1 £M	Forecast Variance Qtr 1 £M
Children & Learning	63.63	72.56	8.93 A
Corporate Services	38.94	41.83	2.89 A
Place	28.45	31.10	2.65 A
Strategy & Performance and CEO	3.72	3.79	0.07 A
Wellbeing & Housing	91.89	98.32	6.43 A
Total Directorates	**226.63**	**247.58**	**20.96 A**
Centrally Held Budgets	(5.11)	(5.15)	0.04 F
Net Revenue Expenditure	**221.52**	**242.44**	**20.91 A**
Financing	(221.52)	(221.52)	0.00
(Surplus) / Deficit for the year	**0.00**	**20.91**	**20.91 A**

Numbers are rounded

4. Corporate Services has a forecast deficit of £2.89M (7.4%), of which £2.06M relates to IT Services.

5. The forecast deficit for Place is £2.65M (9.3%), with Planning (£0.64M) being the largest adverse variance.

6. Strategy & Performance and the Chief Executive’s Office (CEO) has a forecast deficit of £0.07M (1.8%).

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

8. As there is some uncertainty impacting on the forecast budget deficits, CIPFA (the Chartered Institute of Public Finance and Accountancy) are undertaking a review of the forecasts to provide external validation.

9. With increased in-year pressures identified, work to achieve a balanced position in the current financial year is on-going. Work is continuing on delivery plans for further cost control measures that have been identified and on developing additional proposals to assist in meeting the budget shortfall. This sits alongside tightening of budgetary control, including the operation of the Cost Control Panel in taking spending decisions.

Implementation of Savings Plans

10. £32.57M of directorate savings plans have been agreed for 2023/24, £23.68M agreed in February 2023 or relating to savings proposals approved in earlier years but not yet delivered and £8.88M of directorate in-year cost control measures approved by Council in July 2023. £29.43M (90%) have been achieved or are on track to be achieved before the end of this financial year. The balance of £3.14M (10%) are currently not forecast to be achieved and are included in the adverse variances reported for directorates. These represent a risk until all management actions required to deliver

the savings are complete. A full list of all directorate savings for 2023/24 and their achievability status is provided in Annex 2.

Treasury Management

11. Treasury Management borrowing and investment balances as at 30 June 2023 and forecasts for the year-end are set out in Appendix 3. After taking into account maturing and new debt requirements in year and a forecast reduction in investment balances, net debt is expected to increase by £88.82M to £394.55M as at 31 March 2024. This is likely to change throughout the year subject to changes to the capital programme, interest rates and use of balances.

12. The forecast cost of financing the council's loan debt is £21.92M of which £6.37M 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.

13. There has been a substantial rise in the cost of both short- and long-term borrowing over the last 18 months. In this quarter, the Bank Rate rose from 4.25% at the beginning of April to 5.0% at the end of June. Gilt yields have also faced upward pressure and consequently PWLB borrowing rates continued to rise over the quarter. The council doesn't currently hold any short term debt, however short term borrowing before year end is anticipated. Any borrowing will be done in consultation with the Council's treasury management advisors.

14. Treasury management investments are primarily made to manage day-to-day cash flows using short-term low risk instruments. The council's investment balances as at 30 June 2023 were £51.73M and are expected to reduce to £48M by year end.

15. Annex 3 includes an overview of current performance along with an update on the financial outlook.

Prudential Indicators

16. The council is required to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much it can afford to borrow. The Prudential Code includes a series of indicators to demonstrate the objectives of the Code are being fulfilled. It is now a requirement of the Prudential Code that these are reported on a quarterly basis. The council has operated within the limits set by the prudential indicators for the period to 30 June 2023.

17. The prudential indicators include the ratio of financing costs to net revenue stream as a measure of the affordability of the capital programme. When the Treasury Strategy was set in February 2023 the upper limit for this ratio was set at 15% but has been reduced to 11% as part of the MTFS Update report to Council in July 2023. This allows for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes, it includes the cost of long term liabilities but now excludes investment income in line with the revised code. The 2023/24 forecast for the General Fund is 10.13%.

18. The Department for Levelling Up, Housing and Communities (DLUHC) has policy responsibility for the Prudential Framework under which local authorities borrow and invest, and stewardship responsibility to ensure that the system is operating effectively. Changes have recently been made to strengthen the capital system and evidence indicates this has had a positive impact in reducing risk but recent financial failures have reiterated the importance of appropriate powers to address excessive risk

in specific cases. In order to ensure that capital investment practices are prudent and compliant with the intent of the Prudential Framework, DLUHC have issued a consultation, "Consultation on Local Government capital risk mitigation measures in the Levelling Up and Regeneration Bill: capital risk metrics" which is open to 21 September 2023. We will report back any actions required as a result of this consultation.

Reserves and Balances

19. The General Fund Balance is currently £10.07M, which is 4.5% of the net revenue budget compared to a minimum level of 5% of net revenue expenditure recommended by CIPFA. If the forecast deficit is not brought down the balance would need to be used to meet it. This is not the advice or recommendation of the S151 Officer.

20. At the 31 March 2023, earmarked revenue reserves totalled £49.59M, plus Schools Balances totalling £5.46M. The estimated forecast position as at the 31 March 2024 (excluding Schools Balances) is £21.47M. The forecast £28.12M reduction for the year includes £20.62M planned use of reserves per the Medium Term Financial Strategy (MTFS) agreed in February 2023, release of £5.42M of revenue grants carried forward via reserves (including Public Health Grant) and forecast net drawdown of £1.23M from the On Street Parking Reserve to fund the capital programme.

21. Within the £21.47M total for earmarked revenue reserves, the forecast year-end balance for the Medium Term Financial Risk (MTFR) Reserve is £9.42M. This doesn't include any contribution towards the in-year deficit highlighted in paragraph 1. The reserve exists to provide cover for a variety of anticipated risks as set out in the financial risk register noted below and to provide financial resilience for the council. The forecast level of the reserve is not sufficient to provide cover for all of the risks identified and the MTFS Update reported to Council in July includes plans to bolster the reserve over the medium term.

Key Financial Risks

22. 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 4.

Schools

23. As at 30 June 2023 there were 13 schools forecasting a deficit balance totalling £3.7M which compares to deficits totalling £4.5M at the end of the last financial year (2022/23). There are 28 schools forecasting a surplus balance of £8.6M which compares to surpluses totalling £9.5M at the end of the last financial year. The net position is therefore a £4.1M surplus.

24. At the time of writing there are four schools in deficit working with the Executive Director for Children and Learning, and the finance team to finalise their deficit recovery plans (DRP). These are:

- Hardmoor Nursery
- Compass Alternative Provision
- Townhill Junior
- Mansbridge

25. 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 2023/24

26. The forecast outturn for the Dedicated Schools Grant (DSG) as at the end of June 2023 is a £9.4M cumulative deficit, an improvement of £0.7M from the £10.1M cumulative deficit as at 31 March 2023. 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. Whilst this reflects the national picture, the impact is reflected in our local financial resilience. The increase in High Needs funding in 2023/24 helps 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 primary strategy for managing the increase in High Needs is threefold:

1) Reduce the number of children requiring an Education and Health Care Plan through targeted early intervention support, through enhanced training and support to schools and parents.
2) Reduce the number of children requiring a place at a special school, by improving the consistency of offer and inclusive practice at mainstream schools and by developing SEND units and resourced provisions within mainstream schools.
3) Maintain a reduction in the reliance of placements in high cost out of city special independent school places, by enhancing the offer and facilities of local mainstream schools, and on the development of highly specialist units and resourced provisions.

27. 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 2026, having recently been extended by 3 years.

28. What this means, however, is that whatever deficit remains, as of April 2026, will impact directly on the council and will need to be covered by General Fund resources. It is therefore important the council ensures robust plans are in place to address the deficit within the 3 year window allowed by Government. The council will need to engage with other authorities and Government to control this deficit. This is likely to be a difficult challenge, which faces many councils nationally.

Performance Indicators

29. 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 performance indicators. Annex 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.

30. For the General Fund Balance, the minimum level may not be maintained if the forecast deficit for the year is not reduced, as outlined in paragraph 19.

31. For Income Collection, average days sales outstanding and percentage of debt more than 12 months old are not achieving the targets set for the year. The major contributors to this under performance are adult social care debt and former tenant arrears. Adult

social care debt includes clients waiting for appointeeship and deputyship. The level of care debt is also impacted by the practice of billing clients at full cost who have not engaged with the financial assessment process – once financial assessments are completed they may not be full cost clients, leading to debt cancellations. To tackle former tenant arrears resource within the Customer Payments and Debt Team has been re-prioritised from current tenant arrears and options are being explored for commissioning external agency support versus additional in-house resource.

Housing Revenue Account

32. The Housing Revenue Account is forecast to have a surplus of £0.58M for the year, as summarised in Table 2 below, which will be used to increase the HRA working balance to £2.58M.

Table 2 – Housing Revenue Account Forecast 2023/24

	Budget Qtr 1 £M	Annual Forecast Qtr 1 £M	Forecast Variance Qtr 1 £M
Expenditure	79.77	78.75	1.02 F
Income	(79.77)	(79.33)	0.44 A
(Surplus) / Deficit for the year	**0.00**	**(0.58)**	**0.58 F**

Collection Fund

33. The forecast outturn position for the Collection Fund at Q1 is summarised in Table 3.

Table 3 – Collection Fund Forecast 2023/24

	Council Tax £M	Business Rates £M	Total £M
Distribution of previous years' estimated surplus/(contribution towards estimated deficit)	(0.31)	3.45	3.14
Net (income)/expenditure for 2023/24	0.76	(3.43)	(2.67)
(Surplus)/Deficit for the year	**0.45**	**0.02**	**0.47**
(Surplus)/Deficit brought forward from 2022/23	0.90	(13.20)	(12.30)
Overall (Surplus)/Deficit Carried Forward	**1.35**	**(13.18)**	**(11.83)**
SCC Share of (Surplus)/Deficit	**1.13**	**(6.46)**	**(5.33)**
Add: Variance in SCC government grant income for business rates reliefs for 2023/24		(0.28)	(0.28)
SCC Net Share of (Surplus)/Deficit including government grant adjustments to be taken into account in 2024/25 budget setting	**1.13**	**(6.74)**	**(5.61)**

Numbers are rounded

BRIEFING PAPER

34. The position on the Collection Fund as a whole is a forecast surplus to be carried forward of £11.83M, comprising a forecast deficit of £1.35M for Council Tax and a forecast surplus of £13.18M for Business Rates.

35. For Council Tax, £0.90M of the deficit was carried forward from 2022/23. Of this, £0.31M was estimated in January 2023 and is being recouped in the current year. The net expenditure for 2023/24 excluding the contribution towards the previous years' estimated deficit is £0.76M. This relates primarily to income from Council Tax payers being lower than estimated when the budget was set.

36. For Business rates, a surplus of £13.20M was carried forward from 2022/23. Of this, £3.45M was estimated in January 2023 and is being distributed in the current year. The net income for 2023/24 excluding the distribution of the previous years' estimated surplus is £3.43M. This relates to a £1.63M reduction in the amount set aside for appeals, £1.27M more business rates income than budgeted and £0.53M reduction in amount set aside for bad debts.

37. The council's share of the forecast £11.83M surplus is £5.33M. In addition, grant compensation for business rates reliefs is forecast to be £0.28M more than budgeted, resulting in a forecast adjusted surplus of £5.61M. This surplus will need to be taken into account in setting the 2024/25 budget and is not available for use in 2023/24.

Conclusion and Outlook

38. A new financial strategy has been adopted to stabilise the council's financial position, reduce expenditure to within budget for the current year and achieve a sustainable budget for future years. Despite swift actions being taken the position remains challenging, with a forecast deficit on the General Revenue Fund of £20.91M for the year. Considerable efforts are on-going to deliver further cost control measures and achieve further savings in-year to turnaround the forecast deficit. A draft plan setting out the actions being taken is attached at Annex 6.

RESOURCE/POLICY/FINANCIAL/LEGAL/RISK MANAGEMENT IMPLICATIONS:

39. Details will be set out in the Executive decision making report published on 7 August.

Appendices/Supporting Information:

Annex 1 - General Revenue Fund Forecast Qtr 1 2023/24
Annex 2 - Savings and In-Year Cost Control Measures Qtr 1 2023-24
Annex 3 - Treasury Management Qtr 1 2023/24
Annex 4 - Key Financial Risks Register Qtr 1 2023/24
Annex 5 - Performance Indicators Qtr 1 2023/24
Annex 6 – Draft Action Plan

Further Information Available From:	**Name:**	Steve Harrison – Head of Financial Planning and Management
	Tel:	023 8083 4153
	E-mail:	Steve.harrison@southampton.gov.uk