REVENUE FINANCIAL MONITORING FOR THE PERIOD TO DECEMBER 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 £10.34M after taking account of £4.70M agreed in-year savings. This is a significant adverse variance which has significant 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 3 £M	Annual Forecast Qtr 3 £M	Forecast Variance Qtr 3 £M	Forecast Variance Qtr 2 £M	Variance Movement from Qtr 2 £M
Portfolios Net Expenditure	218.24	235.60	17.36 A	16.23 A	1.13 A
Non-Portfolio Net Expenditure	(25.09)	(27.39)	2.30 F	2.60 F	0.30 A
Net Revenue Expenditure	**193.15**	**208.21**	**15.06 A**	**13.63 A**	**1.43 A**
Financing	(193.15)	(193.17)	0.02 F	0.02 F	0.00
(Surplus) / Deficit for the year	**0.00**	**15.04**	**15.04 A**	**13.61 A**	**1.43 A**
Agreed in-year savings	0.00	(4.70)	4.70 F	4.02 F	0.68 F
(Surplus) / Deficit after in-year savings	**0.00**	**10.34**	**10.34 A**	**9.59 A**	**0.75 A**
To be met from the Medium Term Financial Risk Reserve			10.34 F		
(Surplus)/Deficit after applying reserves			**0.00**		

NB Numbers are rounded

2. The position at portfolio level is a deficit of £17.36M, or around 8% of the net budget. More detail, including explanations of significant movements in variances between quarter 2 and quarter 3 (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 £11.02M. This deficit relates primarily to Pathways Through Care (£5.97M), with placement numbers not reducing as planned, agency staff costs and additional allowances and overtime within Safeguarding (£1.88M), high-cost placements for children with high and complex needs within the JIGSAW service (£1.21M), and Home to School Transport (£1.46M), with increased numbers of eligible pupils. The Health, Adults & Leisure portfolio is also forecasting a £4.54M deficit (after

	a £1.91M contribution from reserves), relating mainly to increases in the costs of care packages. £2.43M of the adverse variances for portfolios relates to increased energy costs. Mitigation plans to reduce the forecast deficit are being progressed, however at this stage in the year, the deficit will not be covered in full and is likely to remain substantial. In-year savings of around £4.70M have been agreed so far to help reduce the deficit, as shown in Table 1. Failing any further improvement in the financial position the remaining £10.34M deficit will need to be met from the Medium Term Financial Risk reserve which would therefore impact on the council's future financial resilience, with much reduced cover for risks and limited resources available to help address budget shortfalls in future years or deliver transformation, as noted in the 2023/24 Budget, Medium Term Financial Strategy and Capital Programme report elsewhere on this agenda.
	Implementation of Savings Proposals
4.	Of the £9.09M savings plans included within the 2022/23 budget £3.51M (39%) have been achieved or are on track to be achieved before the end of this financial year. The balance of £5.58M (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 31 December 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 £331.12M by the end of 2022/23. This may change during the remainder of the year as capital plans firm up and actual cash flow are known. The forecast cost of financing the council's loan debt is £16.81M of which £5.19M 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, while the rates are more favourable than long term, to replace maturing long term debt, expected reduction in reserves and to fund the capital programme for the year.
7.	The Council will continue to monitor the financial markets closely, given the sharp rise in interest rates during the year, 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 9 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 £52.95M, before any use to meet the forecast in-year deficit. This would reduce to £42.61M if all of the forecast £10.34M in-year deficit is required to be met from reserves. 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'. The reserve is also important in providing resources for transformation costs and invest to save measures. The MTFR reserve is central to the council's financial resilience and is currently estimated as having a balance of £28.37M at the end of 2022/23 after taking into account the in-year deficit. This includes £4.43M use of the reserve in the current year relating to Collection Fund cash flow timing differences, which is due to be repaid in 2023/24. Excluding this use for timing differences the forecast uncommitted balance at the end of 2022/23 would be £32.81M. Details of calls on the MTFR Reserve in future years are included in the 2023/24 Budget, Medium Term Financial Strategy and Capital Programme report elsewhere on this agenda.
	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 this register that is used to inform the level of balances and reserves when the budget is set at the February Council meeting. The register has been reviewed and is attached as Annex 1.3. Elsewhere on the agenda, the budget papers for 2023/24 include an assessment of the robustness of the budget and adequacy of reserves from the S151 Officer. That assessment highlights the significant risks of depleting reserves, both from the in-year overspend reported here and in helping balance the budget in 2023/24, and the significant risk that presents to the financial stability of the council.
	Schools
12.	As at 31 December 2022 there were 14 schools reporting a deficit balance totalling £4.6M which compares to deficits totalling £3.6M at the end of the last financial year (2021/22). There are 28 schools forecasting a surplus balance of £6.2M which compares to surpluses totalling £9.3M at the end of the last financial year. The net position is therefore a £1.6M 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 December 2022 is a £10.24M cumulative deficit. 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 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 continues as a nationally recognised issue with significant pressures being reported in most local authorities. The increase in High Needs funding in 2022/23 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 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. 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 of £10.24M, within the 3 year window allowed by Government.
	Financial Performance 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, outstanding debt more than 12 months old is below target and the percentage has increased since quarter 2. The actual value of debt over 12 months old decreased during the quarter, however at a slower rate than total debt outstanding and hence represents a higher share. The value of debt over 12 months old is expected to continue to decrease as the debt collection team has recently been expanded and now has more capacity to chase older debt. The potential benefits of

automation are also being explored, with the aim of realising further capacity within the team.

For Creditor Payments, the percentage of valid and undisputed invoices paid within 30 days is below target, however performance has improved since quarter 2. A dashboard has been developed to better identify non-compliance and to help target training to improve performance which is shared with senior management. Non-compliance issues are being addressed by a newly established corporate working group. Data is being gathered which will inform future action.

<u>Housing Revenue Account</u>

17. The Housing Revenue Account is forecast to have a nil variance against the budgeted deficit for the year, no overall movement from the position reported at quarter 2, as summarised in Table 2 below.

Table 2 – Housing Revenue Account Forecast 2022/23

	Budget Qtr 3 £M	Annual Forecast Qtr 3 £M	Forecast Variance Qtr 3 £M	Forecast Variance Qtr 2 £M	Variance Movement from Qtr 2 £M
Expenditure	77.33	76.22	1.11 F	0.62 F	0.49 F
Income	(76.41)	(75.30)	1.11 A	0.62 A	0.49 A
(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 2 and quarter 3 are provided in Annex 1.5.

<u>Collection Fund</u>

19. Annex 1.6 shows the forecast outturn position for the Collection Fund at quarter 3, 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	0.15	3.72	3.87
(Surplus)/Deficit for the year	**3.07**	**(20.56)**	**(17.49)**
(Surplus)/Deficit brought forward from 2021/22	(2.76)	17.11	14.35
Overall (Surplus)/Deficit Carried Forward	**0.31**	**(3.45)**	**(3.14)**
SCC Share of (Surplus)/Deficit	**0.26**	**(1.69)**	**(1.43)**
Add: Variance in SCC Government grant		(1.32)	(1.32)

	income for business rates reliefs for 2022/23			
	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*	**0.26**	**1.43**	**1.69**

NB Numbers are rounded

*£1.20M of the 2020/21 in-year deficit estimated at January 2021 was included for 2023/24 in the Medium Term Financial Strategy agreed in February 2022 (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 £3.14M. Of this, £3.45M 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 £3.72M. 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 an adverse variance in gross rates payable net of refunds (£2.23M) together with backdated CARF relief (£8.69M), offset by lower retail, hospitality & leisure reliefs (£6.24M) and empty property relief (£1.38M) than estimated when the budget was set. This forecast is based on bills raised for 2022/23 as at the end of December 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 deficit of £1.43M 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 and pay increases.
24.	While the council has sufficient reserves and contingency to meet these financial pressures in 2022/23, use of these resources in-year significantly weakens the council’s financial resilience and significantly reduces the amount available to help address budget shortfalls in future years undermining financial resilience. The council is therefore more susceptible to financial risk and overspending in future, placing it in a much more precarious financial position at a time when budgets are experiencing

	major pressures.

Annexes

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