DECISION-MAKER:		CABINET		
SUBJECT:		FINANCIAL MONITORING FOR THE PERIOD TO THE END OF JUNE 2022		
DATE OF DECISION:		16 AUGUST 2022		
REPORT OF:		CABINET MEMBER FOR FINANCE & CHANGE		
CONTACT DETAILS				
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STATEMENT OF CONFIDENTIALITY
N/A
BRIEF SUMMARY
The report summarises the General Revenue Fund, Housing Revenue Account (HRA) and Collection Fund financial position for the Council as at the end of June 2022 and informs Cabinet of any major changes in the overall General Fund and HRA capital programme for the period 2022/23 to 2026/27. The deficit as outlined in this report is £15.24M as at 30 June 2022, with the most significant deficit being for the Children & Learning portfolio (£9.19M). Mitigation plans are being worked on to reduce the forecast deficit.

RECOMMENDATIONS:

	General Revenue Fund It is recommended that Cabinet:	
	i)	Notes the forecast outturn position is a £15.24M deficit, as outlined in paragraph 4 and in paragraph 1 of appendix 1.
	ii)	Notes the performance of treasury management, and financial outlook in paragraphs 5 to 8 of appendix 1.
	iii)	Notes the forecast year end position for reserves and balances as detailed in paragraphs 9 and 10 of appendix 1.
	iv)	Notes the Key Financial Risk Register as detailed in paragraph 11 of appendix 1.
	v)	Notes the performance against the financial health indicators detailed in paragraphs 15 and 16 of appendix 1.
	vi)	Notes the forecast outturn position outlined in the Collection Fund Statement detailed in paragraphs 19 to 22 of appendix 1.

	Housing Revenue Account It is recommended that Cabinet:	
	vii)	Notes the forecast outturn position is a nil variance against budget as outlined in paragraph 5 and paragraph 17 of appendix 1.
	Capital Programme It is recommended that Cabinet:	
	viii)	Notes the revised General Fund Capital Programme, which totals £359.50M as detailed in paragraph 1 of appendix 2.
	ix)	Notes the HRA Capital Programme is £266.72M as detailed in paragraph 1 of appendix 2.
	x)	Approves the net addition of £0.33M to the Transport & District Regeneration programme, along with approval to spend as detailed in paragraphs 3 and 4 of appendix 2.
	xi)	Approves slippage and rephasing of £37.58M (£30.64M of General Fund and £6.94M of HRA) as detailed in paragraph 5 and 6 of appendix 2. Noting that the movement has zero net movement over the 5-year programme.
	xii)	Notes that the overall forecast position for 2022/23 at quarter 1 is £186.11M, resulting in a potential surplus of £3.00M, as detailed in paragraphs 7 and 8 of appendix 2.
	xiii)	Notes that the capital programme remains fully funded up to 2026/27 based on the latest forecast of available resources although the forecast can be subject to change; most notably regarding the value and timing of anticipated capital receipts and the use of prudent assumptions of future government grants to be received.

REASONS FOR REPORT RECOMMENDATIONS	
1.	To ensure that Cabinet fulfils its responsibilities for the overall financial management of the Council’s resources.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	Not Applicable.
DETAIL (including consultation carried out)	
	Revenue
3.	The financial position for the General Revenue Fund, Housing Revenue Account (HRA) and Collection Fund for the Council as at the end of June 2022 and key issues are summarised in appendix 1.
4.	The current forecast spending against the council’s net General Fund revenue budget for the year of £193.05M is projected to be a £15.24M deficit, with a forecast deficit of £9.19M for Children & Learning being a key component. This is a significant and concerning adverse variance to be reporting so early in the year. Mitigation plans are being worked on to reduce the forecast deficit.
5.	The forecast position for the HRA is a nil variance against the budgeted deficit of £0.92M, with a forecast surplus of £0.62M against an expenditure budget of £77.33M offset by a forecast deficit of £0.62M against an income budget of £76.41M.

	Capital
6.	Appendix 2 sets out any major changes in the overall General Fund and Housing Revenue Account (HRA) capital programme for the period 2022/23 to 2026/27, highlighting the changes in the programme since the last reported position in July 2022. The report also notes the major forecast variances against the approved estimates.
7.	Following a review to ensure that all projects are accurately profiled, and budgets are suitably aligned to anticipated works and spend, there is £37.58M of slippage (£30.64M General Fund and £6.94M HRA) from 2022/23 into later years, as detailed in paragraphs 5 and 6 of appendix 2.
8.	The current forecast position for 2022/23 at quarter 1 is £186.11M, resulting in a potential surplus of £3.00M, as detailed in paragraphs 7 and 8 of appendix 2.
RESOURCE IMPLICATIONS	
Capital/Revenue	
9.	The revenue and capital implications are contained in the report.
Property/Other	
10.	There are no specific property implications arising from this report other than the schemes already referred to within appendix 2 of the report.
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
11.	Financial reporting is consistent with the Section 151 Officer's duty to ensure good financial administration within the Council.
Other Legal Implications:	
12.	None.
RISK MANAGEMENT IMPLICATIONS	
13.	See comments within report.
POLICY FRAMEWORK IMPLICATIONS	
14.	The update of the Capital Programme forms part of the overall Budget Strategy of the Council.

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	All

SUPPORTING DOCUMENTATION

Appendices

1.	Revenue Financial Monitoring
2.	Capital Financial Monitoring

Documents In Members' Rooms

1.	None	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out?		No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out?		No
Other Background Documents **Equality Impact Assessment and Other Background documents available for inspection at:**		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	The Revenue Budget 2022/23, Medium Term Financial Strategy and Capital Programme (Council 23 February 2022)	

REVENUE FINANCIAL MONITORING FOR THE PERIOD TO JUNE 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 £15.24M deficit. This is a significant and concerning adverse variance to be reporting so early in the year. This is summarised in Table 1 below.

Table 1 – General Revenue Fund Forecast 2022/23

	Budget Qtr 1 £M	Annual Forecast Qtr 1 £M	Forecast Variance Qtr 1 £M
Portfolios Net Expenditure	204.91	220.17	15.26 A
Non-Portfolio Net Expenditure	(11.87)	(11.87)	0.00
Net Revenue Expenditure	**193.05**	**208.31**	**15.26 A**
Financing	(193.05)	(193.07)	0.02 F
(Surplus) / Deficit for the year	**0.00**	**15.24**	**15.24 A**

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 is in the Children & Learning portfolio, which is forecast to be in deficit by £9.19M. This deficit relates primarily to Looked After Children Provision (£5.63M), with placement numbers not reducing as planned, Home to School Transport (£1.58M), with increased numbers of eligible pupils, and agency staff costs within Specialist Core Services (£1.55M). £1.63M of the adverse variances in other portfolios relates to increased energy costs as inflationary pressure takes effect.

Mitigation plans are being worked on to reduce the forecast deficit. Ultimately any persisting deficit will need to be covered by corporate resources which would therefore reduce the council's future financial resilience and the resources available to help address the previously reported £23.4M budget shortfall in 2023/24 (identified at Council budget papers in February 2022), with this shortfall likely to have risen as inflationary pressures on costs take effect.

Implementation of Savings Proposals

4. Of the £9.09M savings plans included within the 2022/23 budget £3.91M (43%) have been achieved or are on track to be achieved before the end of this financial year. The balance of £5.18M (57%) are currently not forecast to be achieved and are included in the adverse variances reported for portfolios. These represent a risk until all management actions required to deliver the savings are complete.

	Treasury Management
5.	Treasury Management borrowing and investment balances as at 30 June 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 £378.75M 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 estimated at £17.36M of which £5.38M 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. These costs will be continually monitored, as traditionally there is some slippage with the capital programme each year that results in costs being pushed into later years. Any reduction in the budgeted costs for 2022/23 reflecting any slippage may help offset the large adverse position reported in table 1 above.
6.	Although we currently do not have any short term debt, we anticipate borrowing before year end to replace maturing long term debt, expected reduction in reserves and to fund the forecast 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. This is later than previously reported as cash flows have remained higher than expected.
7.	The Council will monitor the impact of the high levels of inflation on financial markets 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 3 months of the year and is forecast to do so for the remainder of the year. The main changes from the revised Prudential and Treasury Management Codes published by CIPFA in December 2021 are outlined in Annex 1.2.
	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 £18.11M carried forward via the Revenue Grants Reserve - General, of which £14.08M relate to COVID-19, which are expected to be used in 2022/23. The estimated forecast position as at the 31 March 2023 (excluding Schools Balances) is £57.00M. 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 £43.20M balance unallocated at the end of the end of the MTFS period. However this doesn't include any contribution towards the in-year deficit highlighted in paragraph 1. 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. Any reduction in the MTFR reserve, such as applying it to cover the in-year deficit

	reported here, will reduce future financial resilience and the resource available to deal with future financial difficulties, including the budget shortfall of £23.4M currently reported for 2023/24.
	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.	Some schools have not yet agreed their budgets for 2022/23, so the forecast position for Schools' Balances is not available for this quarter and will be updated for quarter 2. One school became an academy on 1 May 2022, the accounts of which are being finalised. This school had a small surplus at the end of March 2022. Schools with deficit budgets continue to be supported by the School Finance Team to develop Deficit Recovery Plans (DRP). There is 1 school that has received a compulsory order to convert to an academy which has a forecast budget surplus of £0.06M.
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 June 2022 is a £10.09M cumulative deficit. The deficit is forecast to reduce by £1.0M compared with the position as at the end of 2021/22 due to additional funding coupled with managing demand through 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 Schools Budget is ring-fenced and the DSG deficit will not impact on the wider council services or council tax payers. This deficit is being driven by significant year on year increases in the number and complexity of Education Health Care Plans (EHCPs) and the increasing numbers of pupils with Special Educational Needs and Disability (SEND) being placed in highly expensive out of city placements in independent school settings. There is also pressure on Early Years funding from a reduction in children placed in Early Years settings. A review of the service provision is under way to reduce costs and increase income to mitigate the reduced funding.
	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 mitigates the impact on the revenue

	budget. For Income Collection, average days sales outstanding and outstanding debt more than 12 months old are below target. 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), with older debt aging further. 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. A bi-weekly report is being used to engage with users who have approvals and goods receipts notes that are outstanding for more than 30 days. In addition, data on reasons for delays is being produced on a regular basis to help take targeted action.
	Housing Revenue Account
17.	The Housing Revenue Account is forecast to have a nil variance against the budgeted deficit for the year, as summarised in Table 2 below.

Table 2 – Housing Revenue Account Forecast 2022/23

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

NB Numbers are rounded

18.	Details of significant variances to budget are provided in Annex 1.5.
	Collection Fund
19.	Annex 1.6 shows the forecast outturn position for the Collection Fund at quarter 1, 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	(0.22)	(5.87)	(6.09)
(Surplus)/Deficit for the year	**2.70**	**(30.14)**	**(27.44)**
(Surplus)/Deficit brought forward from 2021/22	(2.76)	17.11	14.35

Overall (Surplus)/Deficit Carried Forward	**(0.06)**	**(13.03)**	**(13.09)**
SCC Share of (Surplus)/Deficit	**(0.05)**	**(6.38)**	**(6.43)**
Add: Variance in SCC Government grant income for business rates reliefs for 2022/23		2.31	2.31
Add: SCC Government grant income shortfall in 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*	**(0.05)**	**0.36**	**0.31**

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 £13.09M. Most of the surplus relates to business rates and comprises a £7.16M variance in the 2021/22 outturn deficit (excluding the £1.99M 2020/21 exceptional deficit being carried forward into 2023/24) and an in-year surplus of £5.87M. 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 surplus is primarily due to lower retail, hospitality & leisure reliefs than had been estimated (£5.99M) and a reduction in the estimated provision required for appeals (£0.84M), offset by backdated CARF relief (£0.93M). This forecast is based on bills raised for 2022/23 as at the end of June 2022.
21.	Both the retail, hospitality & leisure reliefs and CARF 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 £0.36M for business rates, once the adverse variance to Government grant for business rates relief for 2022/23 and the repayment to reserves for the 2021/22 shortfall in CARF grant income 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.	This is the first report on our financial forecast for 2022/23. In the previous 2 financial years, budget variances arising from the COVID-19 pandemic were separated from those for business as usual activities (BAU) to enable a clearer view of the financial impact of the pandemic. The Government no longer requires regular COVID-19 financial monitoring data and it is becoming increasingly more difficult to directly link budget pressures to the pandemic, so the separation of variances has been discontinued.

24.	The Council faces 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 Trade Unions have called for an increase of around 11%. This compares with 2.5% provided for within the budget. Any award above the 2.5% allowed for would worsen the forecast deficit. The £15.24M adverse forecast reported in table 1 is clearly of significant concern, and represents around 7.9% of the Council's net budget. Mitigation measures are being planned and taken to offset this forecast, but should the adverse position materialise it could only be financed from reserves or balances held by the Council, reducing the Council's capacity to address future financial shocks and importantly reducing flexibility to use such resources to cope with our forecast future budget shortfalls.
25.	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 MTFS agreed in February 2022 showed a budget shortfall of £23.4M for 2023/24, which is highly likely to be exacerbated by the high demand for services and inflationary pressures currently being experienced.

Annexes

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

OVERALL GENERAL REVENUE FUND FORECAST OUTTURN POSITION FOR 2022/23

Portfolio	Budget Quarter 1 £M	Annual Forecast Quarter 1 £M	Forecast Variance Quarter 1 £M
Children & Learning	58.12	67.30	9.19 A
Communities& Customer Engagement	3.63	4.23	0.60 A
Economic Development	2.17	2.97	0.80 A
Finance & Change	38.37	39.56	1.19 A
Health, Adults & Leisure	81.33	83.72	2.39 A
Housing & the Green Environment	5.94	5.97	0.03 A
Leader	13.83	14.53	0.69 A
Safer City	1.27	1.31	0.04 A
Transport & District Regeneration	0.26	0.58	0.33 A
Total Portfolios	**204.91**	**220.17**	**15.26 A**
Levies & Contributions	0.09	0.09	0.00
Capital Asset Management	10.79	10.79	0.00
Other Expenditure & Income	(22.75)	(22.75)	0.00
Net Revenue Expenditure	**193.05**	**208.31**	**15.26 A**
Council Tax	(111.24)	(111.24)	0.00
Business Rates	(32.78)	(32.78	0.00
Non-Specific Government Grants	(49.03)	(49.05)	0.02 F
Total Financing	**(193.05)**	**(193.07)**	**0.02 F**
(SURPLUS)/DEFICIT	**0.00**	**15.24**	**15.24 A**

NB Numbers are rounded

EXPLANATIONS BY PORTFOLIO

1. CHILDREN & LEARNING PORTFOLIO

KEY REVENUE ISSUES – QUARTER 1 2022/23

The Portfolio is currently forecast to have a deficit of **£9.19M**, which represents a percentage variance against budget of 15.8**%.**

	Forecast Variance £M	**% of budget**
Portfolio Forecast Outturn	**9.19 A**	**15.8%**

A summary of the Portfolio forecast variance is shown in the table below:

Service Area	**Forecast Variance Quarter 1 £M**
Divisional Management & Legal	0.21 A
Education - Home to school transport and property mgt	1.58 A
Education - Services for schools, High Needs	0.18 A
Children Looked After	5.63 A
Specialist Core Services	1.55 A
Other	0.05 A
Total	**9.19 A**

The SIGNIFICANT issues for the Portfolio are:

Service Area	Forecast Variance Qtr 1 £M	Explanation
Divisional Management & Legal	0.21 A	The adverse variance of £0.21M relates to pressures with external costs of higher court fees and experts' costs. Based on current demand levels, these pressures are not expected to reduce.
Education - Home to school transport and property mgt	1.58 A	The service is experiencing cost pressures mainly driven by the increased numbers of pupils with an Education, Health and Care Plan (EHCP) who are eligible for home to school transport. The cost pressures are for increased numbers of school escorts as well as increased transport costs. Also, since the pandemic availability of vehicles and drivers has decreased which has driven up the unit costs for transport. These pressures were previously met by additional funding during the pandemic. To mitigate the pressures the service is exploring a range of initiatives including re-procurement and the offer of independent travel training.
Children Looked After	5.63 A	There are a number of demand pressures within the Children Looked After Teams' placement spend. These adverse variances against budget are detailed below: Residential placements - £2.30M Independent Foster Carers - £1.07M SCC Foster Carers - £0.68M Special Guardianship - £0.39M Children in Care Teams - £0.78M The variances are mainly due to the forecasted non achievement of savings put forward in the February 2022 budget. Placement numbers and costs are currently not reducing as planned and are now expected to be reduce at a slower pace. Additionally, within the Children Looked After staffing teams there is an adverse variance relating to agency staff of £0.41M. This is mainly due to increased demand within these teams. The numbers of agency staff is expected to decrease during the year as the new structures that have recently been created, manage the demand.

Specialist Core Services	1.55 A	There is an adverse variance of £1.55M relating to agency staff currently in the service. The levels of demand with the service has meant that additional agency staff are required in the service teams. Additionally, a number of new permanent staff into the service are not fully case holding currently leading to a requirement for more agency as cover.

2. COMMUNTIES & CUSTOMER ENGAGEMENT PORTFOLIO

KEY REVENUE ISSUES – QUARTER 1 2022/23

The Portfolio is currently forecast to have a deficit of **£0.6M**, which represents a percentage variance against budget of 16.5**%.**

	Forecast Variance £M	**% of budget**
Portfolio Forecast Outturn	**0.60 A**	**16.5%**

A summary of the Portfolio forecast variance is shown in the table below:

Service Area	**Forecast Variance Quarter 1 £M**
Bereavement Services	0.60 A
Total	**0.60 A**

The SIGNIFICANT issues for the Portfolio are:

Service Area	**Forecast Variance Qtr 1 £M**	**Explanation**
Bereavement Services	0.60 A	The significant variance in Bereavement Services relates to energy cost increases for electricity and gas to run the Crematorium Service of £0.15M, and additional coroners costs of £0.45M expected to be incurred from Hampshire County Council as the backlog of cases are dealt with.

3. ECONOMIC DEVELOPMENT PORTFOLIO

KEY REVENUE ISSUES – QUARTER 1 2022/23

The Portfolio is currently forecast to have a deficit of **£0.80M**, which represents a percentage variance against budget of **37.0%.**

	Forecast Variance £M	**% of budget**
Portfolio Forecast Outturn	**0.80 A**	**37.0%**

A summary of the Portfolio forecast variance is shown in the table below:

Service Area	**Forecast Variance Quarter 1 £M**
Facilities Management	0.45 A
Property Portfolio Management	0.22 A
Planning	0.08 A
Economic Development	0.05 A
Total	**0.80 A**

The SIGNIFICANT issues for the Portfolio are:

Service Area	**Forecast Variance Qtr 1 £M**	**Explanation**
Facilities Management	0.45 A	The adverse variance of £0.45M is from increasing energy costs for SCC premises.
Property Portfolio Management	0.22 A	In 2021/22 the investment property income budget was reduced by £0.75M to reflect the impact of the Covid pandemic. The reduction was temporary and ramps back up by £0.25M each year, to return to pre-pandemic levels of budgeted income by 2024/25. The current forecast for investment property income

		indicates the income achieved in 2022/23 will be at a similar level to 2021/22 making the ramp-up unachievable. This is partly due to profit share arrangements in the larger leases being based on prior year performance which means there is a delay in the recovery being reflected in SCC income.

4. FINANCE & CHANGE PORTFOLIO

KEY REVENUE ISSUES – QUARTER 1 2022/23

The Portfolio is currently forecast to have a deficit of **£1.19M**, which represents a percentage variance against budget of 3.1**%.**

	Forecast Variance £M	% of budget
Portfolio Forecast Outturn	**1.19 A**	**3.1%**

A summary of the Portfolio forecast variance is shown in the table below:

Service Area	Forecast Variance Quarter 1 £M
Business Development Management Team	0.01 F
Business Support	0.25 A
City Services - Management & Compliance	0.06 F
City Services - Waste Operations	0.06 F
Highways Contracts	0.37 A
IT Services	0.70 A
Total	**1.19 A**

The SIGNIFICANT issues for the Portfolio are:

Service Area	Forecast Variance Qtr 1 £M	Explanation
Business Support	0.25 A	The £0.25M savings target is forecast not to be achieved as this requires a comprehensive review of the way the Business Support function interacts with all the other Council services, which has not yet been undertaken.
Highways Contracts	0.37 A	The £0.37M adverse variance is the estimated overspend on electricity costs on the street lighting contract for the current year.
IT	0.70 A	The £0.70M adverse variance relates to the IT savings target of £0.90M where savings of £0.20M have already been identified. It is hoped that further savings can be identified during the year.

5. HEALTH, ADULTS & LEISURE PORTFOLIO

KEY REVENUE ISSUES – QUARTER 1 2022/23

The Portfolio is currently forecast to have a deficit of **£2.39M**, which represents a percentage variance against budget of **2.9%.**

	Forecast Variance £M	**% of budget**
Portfolio Forecast Outturn	**2.39 A**	**2.9%**

A summary of the Portfolio forecast variance is shown in the table below:

Service Area	**Forecast Variance Quarter 1 £M**
Adults - Adult Services Management	0.10 F
Adults - Long Term	1.23 A
Adults - Provider Services	0.08 A
Adults - Reablement & Hospital Discharge	0.22 A
Adults - Safeguarding Adult Mental Health & Out Of Hours	0.25 A
ICU - Provider Relationships	0.65 A
ICU - System Redesign	0.06 A
Total	**2.39 A**

The SIGNIFICANT issues for the Portfolio are:

Service Area	Forecast Variance Qtr 1 £M	Explanation
Adults - Long Term	1.23 A	As at Quarter 1 there is a £1.23M adverse variance due to: • A £2.56M potential impact of the revised discharge to assess process where clients are discharged from hospital in line with the updated Covid response process. This often leads to increased average costs compared to pre Covid levels due to the early discharge plus potential lack of reablement support to ensure that clients don't require enhanced packages of care. • There is an element of reduced income relating to direct payments due to a movement in the client base for applicable charging and non achievement of savings around double handed care which have a combined adverse variance of £0.19M. • There is a forecast adverse variance of £0.06M due to a projected increase cost of Learning Disability client demand. • There is a £0.12M adverse variance due to the cost of staffing pressures for agency staff covering vacancies and overtime in the Social Wellbeing and Learning Disability teams. • These costs are partly offset by an expected recovery of Nursing Home spot rate client costs as part of the revised agreement which would be a cost of £1.7M (full year effect).
Adults - Reablement & Hospital Discharge	0.22 A	As at Quarter 1 there is a £0.22M adverse variance forecast due to ongoing agency staffing pressures in the Hospital Discharge and Connect teams. This is partly, but not fully, offset by Hospital Discharge funding from the CCG/NHS and Covid Contain Outbreak Management Funding.
Adults - Safeguarding Adult Mental Health & Out Of Hours	0.25 A	As at Quarter 1 there is a £0.25M adverse variance forecast due to a £0.18M forecast increased expenditure for residential, nursing and direct payments. There is also a £0.07M adverse variance due to vacant posts covered by locum staff and secondees forecast to be in place until August and September 2022.

ICU Provider Relationships	0.65 A	As at Quarter 1 there is a £0.65M adverse variance. This is in part due a service review that is taking place at a cost of £0.13M. There is also a £0.52M adverse variance against the Contract Review savings target due to the savings currently being viewed as not being achievable this year. All contracts are now being reviewed to identify where savings or rightsizing may help to contribute to the delivery of this saving so this position may change.

6. HOSING & THE GREEN ENVIRONMENT PORTFOLIO

KEY REVENUE ISSUES – QUARTER 1 2022/23

The Portfolio is currently forecast to have a deficit of **£0.03M**, which represents a percentage variance against budget of 0.5**%.**

	Forecast Variance £M	% of budget
Portfolio Forecast Outturn	**0.03 A**	**0.5%**

A summary of the Portfolio forecast variance is shown in the table below:

Service Area	Forecast Variance Quarter 1 £M
City Services – Commercial Services	0.07 F
City Services – District Areas	0.27 A
City Services – Trees & Ecology	0.09 F
City Services - Trading areas (Fleet & Landscapes)	0.07 F
Other	0.01 F
Total	**0.03 A**

The SIGNIFICANT issues for the Portfolio are:

Service Area	Forecast Variance Qtr 1 £M	Explanation
City Services - District Areas	0.27 A	The adverse variance in the District teams relates to the significant increase in fuel costs resulting from wholesale cost increases since February 2022, generating an adverse variance of £0.17M; and to an unachievable saving of £0.10M relating to efficiencies to be generated by solar compactor bins. The required vehicles are still on back order and are not likely to be delivered until early 2023.

7. LEADER PORTFOLIO

KEY REVENUE ISSUES – QUARTER 1 2022/23

The Portfolio is currently forecast to have a deficit of **£0.69M**, which represents a percentage variance against budget of **5.0%.**

	Forecast Variance £M	% of budget
Portfolio Forecast Outturn	**0.69 A**	**5.0%**

A summary of the Portfolio forecast variance is shown in the table below:

Service Area	Forecast Variance Quarter 1 £M
Cultural Services	0.59 A
HR Services	0.02 A
Land Charges	0.04 A
Legal Services & Customer Relations	0.04 A
Total	**0.69 A**

The SIGNIFICANT issues for the Portfolio are:

Service Area	Forecast Variance Qtr 1 £M	Explanation
Cultural Services	0.59 A	The adverse variation of £0.59M relates to £0.20M for the estimated impact of increasing energy costs for the city's venues and libraries; £0.17M for additional salary costs for overtime, allowances and agency which are required to run the venues and £0.03M cost of sales purchases, these costs had previously been covered by additional income but this is no longer possible due to the venues' increased income target. There are further pressures; £0.03M for the Commonwealth Queen's Baton relay; and £0.16M of income not being achieved, of this £0.15M relates to an events income saving from 2019/20 that is unachievable and £0.01M relates to media hire income in the libraries that is now an obsolete service.

8. SAFER CITY PORTFOLIO

KEY REVENUE ISSUES – QUARTER 1 2022/23

The Portfolio is currently forecast to have a deficit of **£0.04M**, which represents a percentage variance against budget of 2.9**%.**

	Forecast Variance £M	**% of budget**
Portfolio Forecast Outturn	**0.04 A**	**2.9%**

A summary of the Portfolio forecast variance is shown in the table below:

Service Area	**Forecast Variance Quarter 1 £M**
Port Health & Trading Standards	0.04 A
Total	**0.04 A**

There were no SIGNIFICANT issues for the Portfolio at Quarter 1.

9. TRANSPORT & DISTRICT REGENERATION PORTFOLIO

KEY REVENUE ISSUES – QUARTER 1 2022/23

The Portfolio is currently forecast to have a deficit of **£0.33M**, which represents a percentage variance against budget of **128.4%.**

	Forecast Variance £M	% of budget
Portfolio Forecast Outturn	**0.33 A**	**128.4%**

A summary of the Portfolio forecast variance is shown in the table below:

Service Area	Forecast Variance Quarter 1 £M
Parking & Itchen Bridge	0.34 A
Transportation	0.01 F
Total	**0.33 A**

The SIGNIFICANT issues for the Portfolio are:

Service Area	Forecast Variance Qtr 1 £M	Explanation
Parking & Itchen Bridge	0.34 A	The adverse variance of £0.34M reflects increases in energy costs for 2022/23 of £0.17M for electricity costs for the Multi Storey car parks and Toll Plaza, and an adverse income position for Off Street parking of £0.15M as a result of continuing working from home trends.

10. NON-PORTFOLIO EXPENDITURE & INCOME

KEY REVENUE ISSUES – QUARTER 1 2022/23

Non-Portfolio Expenditure & Income is currently forecast to have a surplus of £0.02M, which represents a percentage variance against budget of **0.01%.**

	Forecast Variance £M	% of budget
Non-Portfolio Forecast Outturn	**0.02 F**	**0.01%**

A summary of the Non-Portfolio forecast variance is shown in the table below:

Service Area	Forecast Variance Quarter 1 £M
Capital Asset Management	0.00
Net Housing Benefits Payment	0.00
Other Expenditure & Income	0.00
Council Tax	0.00
Business Rates	0.00
Non-Specific Government Grants & Other Funding	0.02 F
Total	**0.02 F**

There were no SIGNIFICANT issues for the Non-Portfolio areas at Quarter 1.

Treasury Management

Borrowing and Investments

1. The table below shows the year's opening balance of borrowing and investments, current levels and those predicted for year-end. Forecast borrowing is currently based on year end capital monitoring and will be subject to review during the year.

The Authority maintained its strategy of keeping borrowing and investments below their underlying levels in order to reduce risk and make a net saving.

2.

	31-Mar-22 Actual £M	31-Mar-22 Average Yield / Rate %	30-Jun-22 Actual £M	30-Jun-22 Average Yield / Rate %	31-Mar-23 Forecast £M	31-Mar-23 Forecast Average %
Long Term Borrowing						
Public Works Loan	246.30	2.88	256.29	2.75	340.29	2.84
LOBO Loans from Banks	9.00	4.89	9.00	4.86	9.00	4.87
	255.30	**2.95**	**265.29**	**2.88**	**349.29**	**2.82**
Short Term Borrowing						
Other Local Authorities	0.00	0.00	0.00	0.00	10.00	2.25
Other	0.36		0.36	1.26	0.36	1.26
Total External Borrowing	**255.66**	**0.00**	**265.65**	**2.85**	**359.65**	**2.78**
Other Long Term Liabilities						
PFI Schemes	47.52	9.01	45.95	10.20	44.37	10.20
Deferred Debt Charges (HCC)	13.10	2.66	12.92	2.56	12.73	2.56
Total Gross External Debt	**316.28**	**3.87**	**324.51**	**4.08**	**416.75**	**3.89**
Investments:						
Managed In-House						
Government & Local Authority	0.00	0.00	(10.52)	1.06		
Cash (Instant access)	(54.50)	0.51	(46.60)	1.12	(10.00)	2.25
Cash (Notice Account)	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Bonds	(1.06)	5.27	(1.01)	5.27	(1.00)	5.27
Managed Externally						
Pooled Funds (CCLA) & Shares	(27.25)	3.81	(27.00)	4.04	(27.00)	3.00
Total Investments	**(107.22)**	**3.46**	**(85.13)**	**3.96**	**(38.00)**	**2.86**
Net Debt	**209.06**		**239.38**		**378.75**	

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 to £378.75M for the year.

This will change throughout the year as capital plans firm up and actual cash flow are known and will be reported at the next quarter.

4. The interest cost of financing the council's long term and short term loan debt is charged to the general fund revenue account and is detailed below together with a summary of performance to date.

As detailed below 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 mitigates the impact on the revenue budget.

	<u>Borrowing</u>
5.	The forecast cost of financing the council's loan debt is £17.36M of which £5.38M 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.	Short term interest rates have remained low and are likely to do so for the remainder of the year and offer good value, which we will utilise to fund any further borrowing needs in the year, unless an opportunity arises to secure a long term loan at advantageous rates or to provide certainty for the portfolio. Although we currently do not have any short term debt, we anticipate borrowing before year end to replace maturing long term debt, expected reduction in reserves and to fund the forecast 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. This is later than previously reported as cash flows have remained higher than expected.
7.	The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.
8.	As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Over the April-June quarter, short-term rates rose between 0.5% and 0.9% and long-term rates rose between 0.6% and 0.8%.
9.	The Authority has an increasing CFR due to the capital programme and currently has a further estimated borrowing requirement of £91.10M for the year, as determined by the Liability Benchmark which takes into account capital spend, maturing debt, usable reserves and working capital. Having considered various options and in consultation with our advisors, it was decided to take a long-term maturity loan. This loan provides some longer-term certainty and stability to the debt portfolio and was in respect of the GF for unfinanced debt at the 31 March 2022. Rates are on an upward trajectory and are currently above the rate used for setting budget. Further borrowing will be required during the year and rates will be monitored to determine the appropriate time; current advice is to take small amounts over regular period due to interest volatility.

Long Term Loans	Date	Amount £M	Rate %	Period (Years)
PWLB Maturity Loan	12/05/2022	10,000	2.94%	25
Total Borrowing		**10,000.00**		

	Investment
10.	The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves. During the year investment balances have ranged between £109.37M and £73.27M during the year and are currently £85.13M but are expected to reduce to £38M by year end. The 0.25% increases in Bank Rate at the MPC's meetings in May and June and with the prospect of more increases to come, short-dated cash rates, which had ranged between 0.7% - 1.5% at the end of March, rose on average by 0.65% over the quarter. At the end of June, the rates on DMADF average 1.06% and the return on sterling low volatility net asset value (LVNAV) Money Market Funds averaged 1.12%. Forecast income is now £1.4M, £0.38M higher than originally budgeted.
	External Managed investments
11.	The council has invested £27M in property funds as an alternative to buying property directly. As previously reported these funds offer the potential for enhanced returns over the longer term but may be more volatile in the shorter term and are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments.
12.	Because these funds have no defined maturity date but are usually available for withdrawal after a notice period (90 days), their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed.
13.	Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In light of their performance over the long-term and the Authority's latest cash flow forecasts, investment in these funds has been maintained.
14.	The market has continued to improve since year end when the value was last reported as £30.89M and at £32.51M has increased by a further £1.62M and is now £5.51M above the initial investment of £27M. The dividend for April to June has been estimated at £0.27M, 4.04% against the original investment, this is similar to 2021/22. If rates remain at this level the total forecast dividend for the year is £1.09M.
	Financial Review and Outlook
15.	A summary of the external factors, which sets the background for Treasury, as provided by the council's treasury advisors, Arlingclose Ltd, is summarised below. **Arlingclose's Economic Outlook for the remainder of 2022/23 (based on the June 2022 interest rate forecast)**

	Current	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Arlingclose Central Case	1.25	1.75	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.00	2.00	1.75	1.75
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75

16.	The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, for June 2022 is detailed below and is based on the following Underlying Assumptions:

	• The MPC will raise Bank Rate further to dampen aggregate demand and reduce the risk of sustained higher inflation. • Arlingclose expects Bank Rate to rise to 2.25% by December, in 25bp steps at each of the next four meetings. We now also expect a reduction in Bank Rate during the forecast period. • Risks remain weighted to the upside in the short term following the MPC's more hawkish stance. • Gilt yields will remain under upward pressure in the short term on inflation and central bank policy expectations, and investor uncertainty. Yields will decline over the medium time as weak growth places pressure on central banks to ease policy. • The risks around the gilt yield forecasts remain tilted to the upside over the short term, primarily due to US policy uncertainty. Over the medium term, the balance of risks shifts to the downside as growth softens.
17.	Following Russia's Invasion of Ukraine in February, global inflationary pressures have intensified sharply, leading to a sizeable deterioration in the outlook for world and UK growth. The economic backdrop in the April-June quarter was characterised by higher oil, gas and commodity prices, fears of rising and persistent inflation and its damaging impact on consumers' cost of living, little indication of an imminent end to Russia-Ukraine hostilities and supply chain bottlenecks exacerbated by war in Ukraine and lockdowns in China. Added to this was tough rhetoric and action by central bankers globally on fighting inflation through higher interest rates and quantitative tightening even as financial conditions became increasingly difficult for consumers, more so for those whose wages have not kept pace with inflation. In the UK inflation remained elevated. Ofgem, the energy regulator, increased the energy price cap by 54% in April, equivalent to around £700 for a household with average energy consumption (the cap had already increased 12% back in October 2021). May data showed CPI edging higher to 9.1% while the core CPI rate, which removes energy, fuel and food was 5.9%. RPI rose to 11.7%. The labour market continued to show signs of tightness as employers struggled to fill vacancies with workers with skill sets matching their requirements. The unemployment rate 3m/year for April fell to 3.8% and is now below pre-pandemic levels. Pay growth was 6.8% for total pay (including bonuses) and 4.2% for regular pay; however, adjusted for inflation, growth in total pay was just 0.4%, whilst regular pay fell 2.2%. Unsurprisingly, with disposable income squeezed and another energy cap increase due in October, consumer confidence plummeted to the level last seen during the 2008/09 financial crisis. Quarterly GDP growth was 0.8% in the January-March quarter and the Bank of England now expects a decline of 0.3% in Q2 2022. Having increased interest rates by 0.25% in April, the Bank of England's Monetary Policy Committee on the 15th of June 2022 voted 6-3 to increase the official Bank Rate by 0.25% to 1.25%. Those members in the minority preferred to increase Bank Rate by 0.5%. Rises in the

	input and output producer price measures suggest further inflationary pressure is in the pipeline. The Bank of England is therefore unlikely to become complacent, so further rate rises look likely in the near term. Annual inflation in the US rose to 8.6% in May, the highest in nearly 40 years. The Federal Reserve also stepped up its fight against inflation with a 0.5% hike in rates in May followed by a further increase of 0.75% in June, the latter its most aggressive hike since 1994 and higher than markets expected, taking policy rates to a range of 1.5% - 1.75%. Inflation in the Eurozone also pushed higher to 8.1%, with energy price pressures a major contributor. Europe is heavily impacted by the energy crisis following the Russian invasion of Ukraine, but concerns about the Eurozone's peripheral members and highly indebted members states complicates the European Central Bank's response as it seeks to normalise monetary policy. The ECB stated it would end quantitative easing at the beginning of July and then increase interest rates by 0.25% later in the month, the first hike since 2011. The central bank's Governing Council also convened an emergency meeting in June to address 'fragmentation' risks.
	<u>Credit background</u>
18.	In May Moody's affirmed the long-term rating of Guildford Borough Council at Aa3, a reflection of the Council's solid track record of budgetary performance and high level of usable reserves, but changed the 'outlook' (the longer-term direction of travel) to negative. The agency downgraded the long-term rating of Warrington Borough Council from A2 to A3 and that of Transport for London (TfL) from A3 to Baa1. Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.
	<u>Investment Performance</u>
19.	The council's advisors undertake quarterly investment benchmarking across its client base. We previously had a more diversified portfolio and at higher interest rates than the average as a result of moving into the bond programme earlier than most clients, but there is now more competition for bonds from both government bodies and other local authorities, so opportunities to replace maturing bonds are limited and we have seen a fall in suitable instruments. With this in mind, and the changes to Prudential code to only borrow when cash flows dictate, our investments primarily now consist of a previous long term investment in property funds and short term investments for cash flow purposes.
20.	Our current investments in bonds has reduced from £3M to £1M following maturities in 2021/22 and we maintained the property funds at £27M, with all other cash being placed in short term deposits as shown in table in paragraph 2.
21.	As detailed in paragraph 11 our cash balances have continued to be higher than forecast. As a result, we had £57.12M in short term investment which is above our normal working balances.

	Our target is to reduce this to a £10M working balance to reduce borrowing and therefore net interest costs but this will be dependent on actual capital spend and movement in balances.
22.	Investments managed internally are currently averaging a return of 1.16% which is slightly higher than the average unitary authority at 0.96% whilst maintaining a higher average credit rating at AAA. Total income returns at 2.08% is also higher than the average for both unitary (1.52%) and LA's (1.39%), this is primarily due to historic investment in EIB bonds which return 5.27%, although on a small balance of £1M, since maturities cannot be replaced at the same level. We hold 36% of our investments in strategic funds which offer higher return over the long term as detailed in paragraphs 11 to 14 above. This is higher than the average but in line with our strategy. In addition, due to the increase in the capital value of our external funds of +19.6% our total investment return at 9.11% is significantly higher than the average LA's at 3.10% and the average unitary at 1.78% across Arlingclose's client base, but as previously reported it is the income return that is the driver to invest plus.
	<u>Revision to CIPFA Codes</u>
23.	CIPFA published revised Prudential and Treasury Management Codes in December 2021. The Prudential Code took immediate effect although detailed reporting requirements could be deferred until the 2023/24 financial year and have not been included in this report whilst we are reviewing the impact of the proposed changes.
24.	The main changes or expected changes from previous codes include: • Additional reporting requirements for the Capital Strategy. • For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the Authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services). • Forward looking prudential code indicators must be monitored and reported to members at least quarterly. • A new indicator for net income from commercial and service investments to net revenue stream. • Inclusion of the liability benchmark as a treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the authority's full debt maturity profile. • Excluding investment income from the definition of financing costs. • Credit and counterparty policies should set out the Authority's policy and practices relating to Environmental, Social and Governance (ESG) investment considerations. • Additional focus on the knowledge and skills of officers and elected members involved in decision making
25.	Early indications are that future long term investments, such as CCLA will be prohibited but we will not need to unwind existing investments.

KEY FINANCIAL RISKS

The following table identifies the key financial risks to the council's financial position over the short to medium term together with a summary of the mitigating actions in place and planned. These financial risks are reflected in the assessment of the adequacy of estimates and reserves. The assessment of risk is based on the following risk scoring criteria:

LIKELIHOOD (Probability)		
A - Almost certain	> 95%	Is expected to occur in most circumstances
B - Likely	↑	Will probably occur in most circumstances
C - Possible	50%	Might occur at some time
D - Unlikely	↓	Could occur at some time
E - Very Unlikely	< 5%	May only occur in exceptional circumstances

IMPACT	5 - Minor	4 - Moderate	3 - Significant	2- Major	1- Extreme
Service delivery / key priorities	No noticeable effect	Some temporary disruption to a single service area/ delay in delivery of one of the council's objectives	Regular disruption to one or more services/ a number of corporate objectives would be delayed or not delivered	Severe service disruption on a directorate level / many corporate priorities delayed or not delivered	Unable to deliver most priorities / statutory duties not delivered
Financial Impact	Loss or loss of income < £10k	Loss or loss of income £10k - £499k	Loss or loss of income £500k - £4.99m	Loss or loss of income £5m < £9.99m	Loss or loss of income >£10m
Reputation	Internal review	Internal scrutiny required to prevent escalation	Local media interest. Scrutiny by external committee or body	Intense public, and media scrutiny	Public Inquiry or adverse national media attention

- **Robustness of estimates**

	Key Financial Risk	INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FE1.	**Interest rates** are underestimated.	Likely	Major	• *Prudent estimates are made around future rates when costing the financing of the capital programme.* • *Market intelligence provided by Treasury Management advisors.* • *Treasury Management Strategy is aligned with CIPFA Code and DLUHC Guidance re investing funds prudently and having regard to the security and liquidity of its investments before seeking the highest rate of return.*	Possible	Significant
FE2.	**Existing fees and charges:** Projected levels of income within the period are not achieved and/or maintained.	Possible	Significant	• *Fees and charges have been reviewed as part of the business planning process. If there are 'in year' shortfalls these form part of the budget monitoring processes.*	Possible	Significant
FE3.	**New income streams:** Projected levels of income within the period are not achieved.	Possible	Significant	• *Income generating activity has been identified as part of current approved savings proposals. There is a risk that in light of the economic backdrop that these levels of income will not be achieved.* • *Higher risk as it is based on new sources of income.*	Possible	Significant
FE4.	**Volatility of Business Rates funding** given the uncertainty around impact of successful appeals.	Likely	Major	• *The appeals provision has been reviewed and updated in light of known current appeals/challenges and potential threats and will be reviewed on a regular basis.* • *Appeals can be backdated and as a consequence of this the Council has set aside a provision to deal with this element of the financial impact.* • *The appeals window for the 2017 rating list will be closed on 31 March 2023 and there may be an increase in the number of cases lodged as the deadline approaches.* • *Legislation has been enacted to prevent appeals as a consequence of measures to control COVID-19. Billing authorities were allocated a share of a £1.5Bn COVID-19 Additional Relief Fund for 2021/22 to award discretionary relief to those business ineligible for existing support linked to business rates.*	Possible	Significant

- **Robustness of estimates**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FE5.	**Increase in demand led spending pressures** (including impact of Welfare Reform, social care, safeguarding) over and above the current budget provision.	Possible	Extreme	*• Annual budget setting process developed in consultation with service managers* *• Monitoring of capital (quarterly) and revenue (monthly) budgets, reported to EMB and Cabinet (Quarterly).* *• Action plans to address any significant in year budget variances are agreed with EMB with the status of the agreed actions reported to EMB on a monthly basis* *• Destination 22 action plan intended to reduce the number of Looked After Children*	Possible	Major
FE6a.	Third party provider costs will increase as a result of the introduction of the **National Living Wage**	Almost certain	Significant	*• As each contract is procured any impact of this will need to be assessed and addressed to ensure services are procured within budget.*	Possible	Significant
FE6b.	**Third party provider costs increase** as result of SCC having to 'step in' in the event of potential provider failure (social care providers)	Unlikely	Significant	*• ICU contract monitoring arrangements and general market oversight and intelligence* *• Market Sustainability and Fair Cost of Care grant funding has been received in 2022/23, at least 75% of which is to be used to increase fee rates (if rates are below the fair cost of care)*	Very Unlikely	Moderate
FE7.	**Legal challenge to savings proposals** that could result in the proposal being either discontinued or revised.	Possible	Significant	*• Robust budget consultation process in place for any service redesign proposals.*	Unlikely	Moderate
FE8.	**Pressure on returns from investment properties** in both the short and longer term.	Possible	Major	*• There is a full and robust process around the financial and legal analysis of the individual investments.* *• Investments are diversified between sectors.* *• No current plans to expand the Property Investment Fund*	Possible	Significant
FE9.	**Voluntary sector** is either unwilling or unable to support the delivery of certain services or activities	Possible	Major	*• Review the overall expectation and co-ordination of the services required of the voluntary sector.* *• Consideration is given to this risk in deciding whether to design services around the voluntary sector*	Possible	Significant
FE10.	The council's **service delivery partners** seek to exit an agreement or are no longer able to deliver the required service or the council seeks to reach an exit agreement.	Likely	Major	*• Central Contracts Team monitors and work closely with the council's significant service delivery partners.* *• Contractual obligations on both parties that set out the respective roles and responsibilities.*	Possible	Significant
FE11.	The Council may received reduced funding if Government make changes to the Local Government funding mechanism. Such changes may include removing the ring-fence for Public Health Grant and rolling it in to general funding.	Possible	Major	*• The Council will plan for any proposed changes through the Medium Term Financial Strategy process.*	Possible	Major

- **Adequacy of proposed financial reserves**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FR1.	**Business Rate Retention & Council Tax Growth -** the council fails to collect, retain and grow business rate income	Possible	Major	*• For the business rates multiplier, the assumption built into the MTFS is based on an annualised CPI Rate reflecting the uplift set by government. The government has frozen the business rate multiplier for 2022/23, however councils will be compensated for this via grants.* *• The MTFS includes assumptions on growth which have been reviewed in conjunction with the Growth service team and Business rate collection team, including pipeline developments and their assumed operational dates. This will be monitored on a frequent basis as part of the standard monitoring arrangements.* *• Business rates are set to be revalued with an effective date of April 2023. Dependent on the outcome of the revaluation exercise, this may impact on the level of retained business rates and/or their collectability.*	Possible	Significant
FR2.	**Delivery of all of the agreed savings** is not achieved.	Possible	Extreme	*• Progress and delivery of the overall programme and individual projects is monitored at Executive Director level, by EMB, with any non achievement forming part of the normal budget monitoring action plan process.* *• EMB review the validity and achievability of projects and provide approval (or not) to projects*	Possible	Major
FR3.	The Government could impose a lower **Council Tax referendum** threshold and/or reduce or remove the **Adult Social Care Precept**	Possible	Significant	*• The 'core' Council Tax and Adult Social Care Precept were frozen in the 2022/23 budget. The MTFS assumes increases of 1.99% for 'core' Council Tax and no increase in the Adult Social Care Precept for future years.* *• The Adult Social Care Precept was introduced as part of the Autumn 2015 Spending Review and allowed local authorities with social care responsibilities to increase Council Tax provided it was ring-fenced to Adult Social Care budgets.* *• The option for a Social Care Precept has applied for a number of years and the Spending Review 2021 indicated a 1% flexibility is likely to apply for each year of the 3-year spending review (2022/23 - 2024/25).*	Unlikely	Significant
FR4.	**Slippage in capital receipts** (not accompanied by a slippage in spend).	Possible	Significant	*• Non-receipt of any planned income will require a permanent draw from reserves, additional borrowing or for savings to be found in the capital programme.* *• Impact reflects the cost of borrowing in short term (the interest payments).*	Possible	Moderate
FR5.	If **building inflation** was to exceed general inflation over a prolonged period, this would have a significant adverse impact on **HRA balances** and, in turn, the business model in respect of the redevelopment and refurbishment of the SCC Housing stock.	Possible	Major	*• Surpluses are liable to change annually, either favourably or not, and this will be reflected in the annual review of stock investment needs and estimated unit rates.* *• Monitoring and assessment of potential impact with business model sufficiently flexible to allow for reassessment of priority outcomes against available budget*	Possible	Significant
FR6.	The level of funds within the **internal insurance provisions** is inadequate to meet current or future demand	Possible	Significant	*• The adequacy of the provision is informed by the output from periodical (at least triennial) external actuarial reviews of the funds.* *• The level of funding required is reviewed as part of annual budget setting process and the position, in respect of potential liabilities is reviewed on a monthly basis.*	Unlikely	Significant

- **Adequacy of proposed financial reserves**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FR7.	**Ad hoc or unforeseen events / emergencies.**	Possible	Extreme	*• The Council's Reserves may be utilised in respect of the financial impact of such an event. • Subject to the nature of the event alternative sources of funding might be available e.g. Bellwin Scheme. • In previous years the Government allocated un-ringfenced support funding to local authorities to meet COVID-19 pressures and provided funding to meet some fees and charges income losses and some irrecoverable tax losses, as well as providing some ring-fenced grant funding for specific measures e.g. infection control. No un-ringfenced funding has been provided for 2022/23, so use of reserves may be required to meet any COVID-19 expenditure or income losses.*	Possible	Major
FR8.	The cost of implementing the **Care Act** 2014 is greater than anticipated.	Possible	Significant	*• The Government announced a new basis for Social Care provision on 7 September 2021, with a "cap and floor" scheme being implemented from October 2023 to be funded via a new Health and Social Care Levy. • No costing analysis has been provided so it is unclear whether the quantum of funding allocated at a national level will be sufficient to cover the costs of the scheme. There is also a risk that the method for distributing the funding will be unfavourable to the Council. • The 2022/23 Services Grant announced in the Provisional Local Government Finance Settlement provides funding to meet the Council's cost of the new Health and Social Care Levy (payable from April 2022), however this funding is only guaranteed for 1 year.*	Possible	Significant
FR9.	**CCG** could seek to reduce its level of contribution to the **'pooled budgeting '** arrangement with SCC	Possible	Major	*• Ongoing relationship and dialogue with CCG re shared objectives and outcomes.*	Unlikely	Significant
FR10.	The council is unable to quantify the financial impact on both vulnerable individuals and key council services arising from implementation **of welfare reforms**	Possible	Significant	*The impact of Welfare Reform on all service areas will be difficult to monitor or to mitigate against.*	Possible	Significant
FR11.	**Inflation increases** at a higher rate than anticipated	Likey	Significant	*• Assumptions have been made in the estimates about the likely level of general inflation that will apply in 2022/23. CPI is currently running at 9.4% (June 2022), well above the level that had been anticipated. • Market intelligence provided by Arlingclose - independent treasury advisors. • An amount is included in the MTFS to cover key elements of inflation, based on assumed inflation rates at the time the MTFS is agreed. • Beyond this provision, it would be managed as an 'in year' issue and services would normally be expected to absorb the difference.*	Likely	Significant
FR12.	**Pay Inflation** is at a higher rate than anticipated	Likely	Major	*• The MTFS model approved in February 2022 is based on a pay award of 2.5% for 2022/23 and 2.0% thereafter. • It should be noted that the trade unions have called for a minimum increase of £2,000 or the current rate of RPI, whichever is the greater, for 2022/23. RPI is currently running at 11.8% (June 2022). • Pay awards for the majority of local government employees are agreed through the National Joint Council for Local Government Services, with representatives from both employers and trade unions.*	Likely	Significant
FR13.	Exiting the European Union - Uncertainty and economic forces, at least in the short term, within both the local business and wider business sector may have an adverse impact on investment decisions and local employment which, in turn, would impact on business rate income.	Likely	Significant	*• National and local modelling in respect of the future approach to business rate retention will need to reflect changes in the financial environment. • There may be either pressure or incentives for non UK owned business to move operations back to within an EU country. • Treasury Management advisors are regularly updating the Council on the economic impact of exiting the European Union, the strength of the pound, inflation and interest rates.*	Likely	Significant

- **Adequacy of proposed financial reserves**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FR14.	There are unplanned and unforeseen consequences (and costs) arising from the implementation of new, or changed, systems and processes across service areas within the organisation	Possible	Significant	*• A Projects and Change Team is in place. A full programme management approach is taken, including planning and risk assessment, with significant support to major projects.*	Unlikely	Significant
FR15.	New accounting rules for financial investments may result in adverse valuation movements being charged to the General Fund in the year that they occur.	Possible	Significant	*• Accounting rules require gains/losses from valuation movements for certain types of financial investments to be recognised in the year they occur, rather than when the investments are sold.* *• The Government put in place legislation to mitigate the impact on the General Fund for the five years 2018/19 to 2022/23. Local authorities are lobbying for the mitigation to be extended. If it isn't, the Medium Term Financial Risk Resserve will be used to manage the volatility that the timing difference may cause.*	Unlikely	Significant
FR16.	COVID-19 will adversely impact on budgets	Almost certain	Major	*• COVID-19 is having ongoing financial effects, as well as introducing significant uncertainty for future financial projects. Major income streams are likely to be impacted, such as council tax and business rates, as well as numerous service costs rising due to increased demand e.g. for social care.The Council included anticipated additional expenditure/income losses in the MTFS agreed in Feb 2021. The MTFS will continue to be used to model the potential effects and ensure the authority continues to plan ahead with robust estimates.*	Almost certain	Significant

FINANCIAL HEALTH INDICATORS – QTR 1 2022/23

Prudential Indicators Relating to Treasury

	Maximum	Forecast	Status
Maximum Level of External Debt £M	£975M	£436M	Green
As % of Authorised Limit	100%	44.72%	Green

	Maximum	Highest YTD	Status
Authorised Limit for external debt £M	£975M	£326M	Green
Operational Limit for external debt £M	£850M	£326M	Green
Maximum external borrowing year to date	£785M	£266M	Green
Limit of fixed interest debt %	100%	83.4%	Green
Limit of variable interest debt %	50%	16.6%	Green
Limit for Non-specified investments £M	£100M	£28M	Green

Other Treasury Performance Indicators	Target	Actual Qtr1	Status
Average % Rate Long Term New Borrowing	2.40%	2.94%	Red
Average % Rate Existing Long Term Borrowing	3.00%	2.95%	Green
Average Short Term Investment Rate - Cash	0.01%	0.40%	Green
Average Short Term Investment Rate – Fixed	0.01%	0.88%	Green
Average Long Term Investment Rate - Bonds	2.00%	5.27%	Green
Average Return on Property Fund	4.00%	4.04%	Green
Average Return on All Investments	2.40%	3.96%	Green

Minimum Level of General Fund Balances

		Status
Minimum General Fund Balance	£10.1M	
Forecast Year End General Fund balance	£10.1M	Green

Income Collection

	2022/23 Target	Qtr1 YTD	Status
Collection rate	>100%	97.69%	Amber
Average days sales outstanding	</= 62 days	89	Red
Outstanding debt more than 12 months old	</= 20.52%	28.32%	Red
Debt written off	</= 1%	0.21%	Green

Creditor Payments

	2022/23 Target	Qtr1 YTD	Status
Valid and undisputed invoices paid within 30 days	96%	88.35%	Red

Tax Collection rate

	2021/22 Actual Rate	Target Collection Rate	Qtr 1 Collection Rate		Status
			Last Year	This Year	
Council Tax	92.67%	95.20%	27.17%	27.07%	Amber
National Non Domestic Rates	95.90%	97.56%	33.22%	32.16%	Amber

HOUSING REVENUE ACCOUNT FORECAST OUTTURN POSITION FOR 2022/23

The Housing Revenue Account is currently forecast to have a nil variance against the budgeted deficit for the year.

	Budget Quarter 1 £M	Annual Forecast Quarter 1 £M	Forecast Variance Quarter 1 £M
Expenditure			
Responsive repairs	13.27	14.39	1.12 A
Cyclical maintenance	7.36	7.36	0.00
Rents payable	0.10	0.20	0.10 A
Debt management	0.08	0.08	0.00
Supervision & management	25.05	25.89	0.84 A
Interest & principal repayments	5.16	5.16	0.00
Depreciation	23.76	21.86	1.90 F
Direct revenue financing of capital	2.54	1.76	0.78 F
Total Expenditure	**77.33**	**76.71**	**0.62 F**
Income			
Dwelling rents	(71.84)	(71.22)	0.62 A
Other rents	(1.18)	(1.18)	0.00
Service charge income	(2.34)	(2.34)	0.00
Leaseholder service charges	(1.05)	(1.05)	0.00
Interest received	0.00	0.00	0.00
Total Income	**(76.41)**	**(75.79)**	**0.62 A**
(SURPLUS)/DEFICIT	**0.92**	**0.92**	**0.00**

NB Numbers are rounded

The SIGNIFICANT issues for the Portfolio are:

Service Area	Forecast Variance Qtr 1 £M	Explanation
Reactive and Cyclical repairs	1.12 A	The adverse variance of £1.12M relates to inflation on building materials of £1.54M which is impacting on the cost of repairs and is partially offset by a favourable variance on vehicle recharging of £0.42M. The current level of inflation for building materials was reported at over 12% in Q4 of 2021/22. High inflation is expected to continue into 2022/23. A review of Fleet costs has been undertaken to ascertain the value of charges on vehicles which have been fully paid off, to ensure capital charges are not continuing.
Supervision & Management	0.84 A	The adverse variance on Supervision and Management relates to the forecast impact of increasing energy prices on the cost of providing communal lighting and running of lifts. The forecast also builds in an assumption of a higher than budgeted pay award due to the cost of living increases in 2022/23.
Depreciation	1.90 F	A review of the depreciation methodology in 2021/22 has resulted in a lower assumed depreciation charge for 2022/23.
Rental Income	0.62 A	Turnaround time of void properties have increased, as well as the number of properties being held for demolition. Remedial plans are being put in place to improve the turnaround times.
Direct Revenue Financing	0.78 F	Efforts are being made to ensure the working balance to the HRA is maintained at £2M. The level of saving to be achieved is £0.78M, to be apportioned across relevant budget headings once identified.

COLLECTION FUND REVENUE ACCOUNT
FOR YEAR ENDED 31ST MARCH 2023

	Current Budget 2022/23 £M	Forecast 2022/23 £M	Variance Adverse / (Favourable) 2022/23 £M
Council Tax			
Total Council Tax Income	**(128.46)**	**(128.56)**	**(0.11)**
Total Council Tax Expenditure (incl. precepts)	**131.37**	**131.26**	**(0.11)**
Council Tax Deficit/(Surplus) for the Year	**2.92**	**2.70**	**(0.22)**
Council Tax Deficit/(Surplus) Brought Forward	(2.65)	(2.76)	(0.11)
Council Tax Deficit/(Surplus) Carried Forward	**0.26**	**(0.06)**	**(0.32)**
Business Rates			
Total Business Rates Income	**(123.32)**	**(128.44)**	**(5.12)**
Total Business Rates Expenditure	**99.05**	**98.30**	**(0.74)**
Business Rates Deficit/(Surplus) for the Year	**(24.27)**	**(30.14)**	**(5.86)**
Business Rates Deficit/(Surplus) Brought Forward	26.26	17.11	(9.15)
Business Rates Deficit/(Surplus) Carried Forward	**1.99**	**(13.03)**	**(15.02)**
Total Collection Fund (Surplus)/Deficit	**2.26**	**(13.09)**	**(15.34)**

Council Tax (Surplus)/Deficit	
Contribution (to)/ from SCC	(0.05)
Contribution (to)/ from HPCC	(0.01)
Contribution (to)/ from H and IOW F&R	(0.00)
Council Tax Collection Fund Balance c/f	(0.06)
NDR (Surplus)/Deficit	
Contribution (to)/ from SCC	(6.38)
Contribution (to)/ from DLUHC	(6.51)
Contribution (to)/ from H and IOW F&R	(0.13)
NDR Collection Fund Balance c/f	(13.03)
Total SCC (Surplus)/Deficit	**(6.43)**
ADD: Variance in grant estimated as due from Government (General Fun	2.31
NET SCC (Surplus)/Deficit for future budget purposes at Qtr 1	**(4.13)**

CAPITAL FINANCIAL MONITORING FOR THE PERIOD TO JUNE 2022	
1.	Table 1 shows the changes to the individual portfolio programmes. The updated programme for the General Fund is £359.50M and £266.72M for the HRA.
2.	Details of changes made since the start of the year, totalling a net increase of £1.10M can be found in annex 2.1. £0.76M has been added to the programme under either delegated decisions or previous Cabinet/Council papers and £0.33M net addition requires approval, as detailed in paragraph 3 and 4.

Table 1 – Changes to Portfolio Programmes

	Latest Programme £M	Previous Programme £M	Total Change £M
Children & Learning	71.07	71.07	0.00
Communities & Customer Engagement	0.97	0.85	0.12
Economic Development	3.05	3.05	0.00
Finance & Change	27.01	27.01	0.00
Health, Adults & Leisure	18.85	18.85	0.00
Housing & the Green Environment	33.82	33.81	0.01
Leader	9.72	9.20	0.52
Safer City	0.16	0.16	0.00
Transport & District Regeneration	194.85	194.40	0.45
Total GF Capital Programme	**359.50**	**358.40**	**1.10**
Housing Revenue Account	266.72	266.72	0.00
Total Capital Programme	**626.22**	**625.12**	**1.10**

NB. there may be small arithmetic variations in the table as figures have been rounded

3.	Approval is sought for the addition and spend of £0.53M to the Transport & District Regeneration programme for Cycling. Grant funding has been awarded from the Department for Transport to provide cycle facilities in the Bitterne area. The grant comes from the Active Travel Fund and will be providing improvements to cycling and walking along Bitterne Road East. Improvements will include enhanced signalised pedestrian crossings, cycle lanes and enhanced landscaping along the corridor. Works will be complete in the 2022/23 financial year.
4.	Approval is sought for the reduction of £0.20M to the Transport & District Regeneration Future Transport Zone project in 2023/24. The delivery of the project will not be affected, as the funding was received directly by our partners.
	SLIPPAGE AND REPHASING
5.	Slippage occurs where works are not expected to take place according to the provisions agreed in the capital programme. Re-phasing of capital expenditure is due to works being carried out sooner than anticipated, budget and funding is brought forward from future years to match the expenditure.

	Following a review to ensure that all projects are accurately profiled, and budgets are suitably aligned to anticipated works and spend, there is £30.64M of General Fund and £6.94M of HRA anticipated work in 2022/23 where work has slipped into later years. Details of schemes with major slippage and where any rephasing has been applied are provided in annex 2.3.
6.	Table 2 below summarises resulting net slippage and rephasing by individual capital programmes. There is zero net effect to the budgets over the 5-year capital programme.

Table 2 – Net Slippage

	Movement in 2022/23 £M	Annex 2.3 Ref
Children & Learning	0.03	-
Communities & Customer Engagement	0.00	-
Economic Development	(0.15)	-
Finance & Change	(3.16)	1-2
Health, Adults & Leisure	(10.56)	3
Housing & the Green Environment	(3.76)	4-6
Leader	(4.09)	7
Safer City	0.00	-
Transport & District Regeneration	(8.95)	8-10
Total General Fund	**(30.64)**	
Housing Revenue Account	(6.94)	11-15
Total Capital Programme	**(37.58)**	

NB. there may be small arithmetic variations in the table as figures have been rounded

20202/23 MONITORING POSITION

7. The forecast performance of individual capital programmes in 2022/23 is summarised in table 2 below.

Table 2 – Summary of the General Fund & HRA Capital Forecast 2022/23

	Revised Programme £M	Forecast £M	Forecast Variance £M	Forecast Variance %
Children & Learning	30.87	30.87	0.00	0.00
Communities & Customer Engagement	0.97	0.97	0.00	0.00
Economic Development	2.31	2.31	0.00	0.00
Finance & Change	11.01	11.01	0.00	0.00
Health, Adults & Leisure	3.94	3.94	0.00	0.00
Housing & the Green Environment	15.17	15.17	0.00	0.00
Leader	5.63	5.63	0.00	0.00
Safer City	0.16	0.16	0.00	0.00
Transport & District Regeneration	70.00	70.00	0.00	0.00
Total General Fund	**140.07**	**140.07**	**(0.00)**	**0.00**

Housing Revenue Account	49.04	46.04	(3.00)	(6.12)
Total Capital Programme	**189.11**	**186.11**	**(3.00)**	**(1.56)**
Financed by				
*CR - GF Borrowing	(58.04)	(58.04)	0.00	0.00
*CR - HRA Borrowing	(19.33)	(18.88)	(0.46)	(2.35)
Capital Receipts	(4.12)	(4.12)	0.00	0.00
Contributions	(12.87)	(12.87)	0.00	0.00
Capital Grants	(67.69)	(67.70)	(0.00)	0.00
Direct Revenue Financing	(2.18)	(1.99)	(0.19)	(8.54)
HRA – MRA	(24.87)	(22.51)	(2.36)	(9.49)
Total Funding	**189.11**	**186.11**	**(3.00)**	**(1.59)**

*CR – Council Resources
NB there may be small arithmetic variations in the table as figures have been rounded

8. The forecast spend for 2022/23 is £189.11M, giving a total forecast favourable variance of £3.00M. The reasons for the major forecast surplus/deficit variances are detailed in Annex 2.2.

CAPITAL RESOURCES

9. The resources which can be used to fund the capital programme are as follows:

- Central Government Grants and from other bodies
- Contributions from third parties
- Council Resources - Capital Receipts from the sale of HRA assets
- Council Resources - Capital Receipts from the sale of General Fund assets
- Revenue Financing
- Council Resources – Borrowing

10. Capital Receipts from the sale of Right to Buy (RTB) properties are passed to the General Fund capital programme to support the Private Sector Housing schemes.

11. It should be noted that the revised General Fund Capital programme is based on prudent assumptions of future government grants to be received. Most of these grants relate to funding for schools and transport and are unringfenced. However, in 2022/23 these grants have been passported to these areas.

12. Annex 2.4 details the current level of available resources. This shows that the largest resource currently un-earmarked is S106 developer contributions. This relates to receipts in the latter part of 2021/22 for which the works are still being scoped and will be added to the programme during 2022/23.

OVERALL CAPITAL PROGRAMME AND FINANCING

13. The revised overall programme by year, including amendments that are being requested as part of this report and use of resources, can be found in Annex 2.5.

14. The most significant amount of funding for the General Fund programme is provided by council resources, which at present, is mainly through borrowing. Borrowing costs

	are in the main met within a central provision. The HRA programme is primarily funded by Major Repairs Reserve (direct revenue contribution).
SUPPORTING DOCUMENTATION	
Annexes	
1.	GF & HRA Programme Changes Since Last Reported Position
2.	GF & HRA Major Forecast Variances as at June 2022
3.	GF & HRA Slippage & Rephasing as at June 2022
4.	GF Capital Resources Available as at June 2022
5.	GF & HRA Revised 5 Year Programme and Use of Resources.

GENERAL FUND & HRA: PROGRAMME AMENDMENTS SINCE LAST REPORTED POSITION

Portfolio	Scheme	£M	*Council/Cabinet **Delegated Approval	Funding Source
Additions to the Programme				
Communities & Customer Engagem	Community CIL Awards	0.12	**	CIL
Leader	Bragate Wall Restoration	0.52	*	CIL
Transport & District Regeneration	Cycling	0.53	^	Government Grant
	Moorlands Pedestrian Crossing	0.12	**	CIL
		0.65		
Reductions to the Programme				
Transport & District Regeneration	Future Transport Zone	(0.20)	^	Government Grant
Total Variations to the Overall Programme		**1.10**		

	£M
* - Approved By Council/Cabinet	0.52
** - Approved under Delegated Powers	0.24
^ - Require Approval	0.33
Total Variations to the Overall Programme	**1.10**

Forecast Major GF & HRA Variance Since Last Reported Position

	HRA
1.	**Decent Neighbourhoods Projects (Surplus of £0.40M)** There has been a slight delay with the planning application that was submitted in May 2021 and still waiting for a decision on the flood risk objections. This is due to the procurement being under resourced. Therefore, this project Any future costs will be covered by the reviewed budget set in 2023/24.
2.	**Electrical Heating Systems (Surplus £1.23M)** This project anticipates a surplus due to shortage of electricians who meet the requirement for the works needed to be carried out. The project is to spend £1.3m in this financial year dependent on Gov grant which has been given an extension to July 2022. There is a possibility to directly award the works to the current external Contractor subject to Procurement.
3.	**Insulation Upgrades (Surplus £1.00M)** This project will be incurring a surplus due to shortage of resources. The Housing Operations have only delivered 14 units to date as opposed to delivering 12 units per week for the remainder of this financial year. There have been some issues with asbestos surveys, but at the current delivery rate this is not a real issue. The team is looking to find a delivery partner to support the project.

Major GF & HRA Slippage & Rephasing Since Last Reported Position

	Finance & Change
1.	Materials Recycling Facility (Slippage of £0.58M from 2022/23 into 2023/24) This project is still awaiting planning approval before works can start. SCC is only making a contribution towards the project and the timescales and management are outside of SCC's control.
2.	Corporate Assets Decarbonisation Scheme (CADS) (Slippage of £2.58M from 2022/23 into 2023/24) It was previously envisaged to be the bulk of streetlighting spend during the 22/23 financial year, but there is an ongoing protracted / delayed contractual process with our Street Lighting Services provider. Therefore, approval of the Final Business Case and implementation of the project will not be possible until at least late summer 2022. This means the bulk of the ordering of materials and delivery on the ground will not commence until the latter part of 22/23.
	Health, Adults & Leisure
3.	Outdoor Sports Centre Improvements (Slippage of £10.55M from 2022/23 into 2023/24 and 2024/25) The Outdoor Sports Centre is included as part of the Council's Levelling Up Fund Grant bid. The development of the full business case has been pushed back to align with the deadlines associated with the bid. Previously the full business case was expected to be presented to Council for approval in July, this will now be moved back until the outcome of the LUF bid is known.
	Housing & the Green Environment
4.	RIFAS River Itchen Flood Alleviation Scheme (Slippage of £4.20M from 2022/23, 2023/24 and 2024/25 into 2025/26 and 2026/27) The budget for this scheme has been realigned to match proposed delivery of works and expenditure set out in the full business case for funding to be submitted to the Environment Agency. This has resulted in the scheme costs being delayed by a year.
5.	Purchase of Vehicles (Slippage of £2.85M from 2022/23 into 2023/24) There is currently a long lead time for vehicle purchases due to global supply issues on components in the motor industry. It is expected that only vehicles that are part of existing orders will be delivered this financial year.
6.	Depot Improvements (Slippage of £0.41M from 2022/23 into 2023/24) The budget for improving depots may not be required depending on service developments. The budget has been slipped in quarter 1 as it will not be spent this year in any case and could be future surplus depending on the result of the review of service requirements and the capital programme.
	Leader

	<u>Restoring and Promoting Heritage Assets (Slippage of £4.09M from 2022/23 into 2023/24)</u> Based on an updated project plan, the budget has been aligned to reflect the phasing of the works, as it currently stands. As the plan and delivery model is still being developed there is a possibility that the project will be phased over a longer period, to enable the Council to procure the specialist contractors needed for these works.
	Transport & District Regeneration
7.	<u>S106 - Highways (Slippage of £0.34M from 2022/23 to 2023/24)</u> This budget represents S106 allocations which have not been linked to a specific project. A review of these contributions is being carried out which will lead to works in 2023/24.
8.	<u>Transforming Cities Fund (Slippage of £5.48M from 2022/23 to 2023/24)</u> The change in administration in May 2021 resulted in a review of the whole TCF programme from June to September 2021, during which some changes to schemes were requested that triggered DfT Change Control – the outcome of two of the three change control submissions are now known. The programme and spend profile was reviewed in June based on current position, and delays associated with the review and subsequent change control have been incorporated, resulting in a slippage across all the TCF schemes.

	<u>Future Transport Zone (Slippage of £3.19M from 2022/23 and £0.02M from 2024/25 into 2023/24)</u>
	
	The Solent Future Transport Zone programme had an indicative funding profile that was developed as part of the funding bid process and has been refined as the programme and projects within it have been specified, approved and progressed. Given the nature of such a large scale programme of activity this will be an ongoing, iterative process.
	
	The budget changes from those currently approved (previously forecast) to the reprofiled ones proposed for 2022/23 are as a result of a number of different factors:
	- Programme timeframe impacts:
	    o COVID has had a significant impact on project delivery and has created knock-on timescales impacts that have resulted in a need to reprofile a number of the project deliverables into the next financial qtr/year.
	    o Resourcing – the FTZ has been under resourced for the past year which has slowed project delivery and therefore spend; this has now been largely rectified and the reprofiled spend reflects this.
	    o Delivery processes – constraints across the sector (external factors) have on a number of occasions impacted our ability to meet internal timeframes which has subsequently impacted in year spend projections.
	- Programme scoping/definition:
	    o The original budget allocations were indicative and based on high level assumptions. With additional resource the FTZ have been able to fully scope out the project requirements to provide more

	certainty on required activity, deliverables, cost estimates and related spend profile projections. ○ A number of the Programme areas have been broken down into more detailed work streams with distinct sub-divided budget allocations identified for those sub tasks.
	HRA
9.	Renew Warden Alarm (Slippage of £0.52M from 2022/23 into 2023/24) Anticipating an expenditure of £30,000 due to lack of resources and recruitment of staff. Which had a knock-on effect on the works needed to be carried out. Therefore, the delay has caused a slippage into 23/24.
10.	Townhill Park Regeneration (Slippage of £0.38M from 2022/23 into 2023/24) The de-commissioning programme is currently being reviewed and may be paused for this financial year. However, a demolition contract is in the pipeline for this financial year dependant on the success of purchasing of 2 leaseholder's properties. Therefore, it is anticipated that the decommissioning and demolition cost will be £1.8m and the project will incur a slippage into 23/24.
11.	Albion Towers Heating (Slippage of £0.60M from 2022/23 into 2023/24) Due to the global shortage of resources and labour this project will be incurring a surplus due. However, the Housing Operations are in the process of recruitment and obtaining resources.
12.	GN New Homes (Slippage of £5.43M from 2022/23 into 2023/24) The workers will not be on site as planned in Oct 2022. Start on Site is now estimated for June 2023. This project is now anticipating a spend of £1.5m. Therefore, this project will be slipped into 23/24.

Capital Resources Available as at June 2022 (Capital Receipts; Community Infrastructure Levy and Section 106 funds)

Resource	Balance Bfwd £M	Received to Date 2022/23 £M	Allocated to Current Programme £M	Ear-marked £M	Available Funding £M	Anticipated Receipts in Year £M
Capital Receipts	(1.84)	(0.07)	1.60	0.00	(0.31)	(2.15)
CIL	(15.56)	(0.30)	18.80	1.00	(0.00)	(2.03)
S106	(9.43)	(0.13)	8.23	0.00	(1.33)	(0.10)
	(26.83)	**(0.50)**	**28.63***	**1.00**	**(1.64)**	**(4.28)**

*Over allocated by £1.3M (funds held £27.33M less £28.63M). Allocation based on future anticipated receipts over the 5-year capital programme.

NB. there may be small arithmetic variations in the table as figures have been rounded

General Fund Capital Receipts Forecast

	Bfwd £M	2022/ 2023 £M	2023/ 2024 £M	2024/ 2025 £M	2025/ 2026 £M	2026/ 2027 £M	Total £M
Current Forecast	(1.84)	(2.22)	(0.00)	0.00	0.00	0.00	(4.06)

NB. there may be small arithmetic variations in the table as figures have been rounded

General Fund & HRA - Revised 5 Year Programme Totals and Use of Resources

Programme Comparison

	2022/ 2023 £M	2023/ 2024 £M	2024/ 2025 £M	2025/ 2026 £M	2026/ 2027 £M	Total £M
Revised Programme	189.11	202.54	107.75	61.18	65.64	626.22
Previous Programme	225.38	176.08	101.04	57.48	65.14	625.12
Movement	**(36.27)**	**26.46**	**6.72**	**3.70**	**0.50**	**1.10**

Programme	2022/ 2023 £M	2023/ 2024 £M	2024/ 2025 £M	2025/ 2026 £M	2026/ 2027 £M	Total £M
Children & Learning	30.87	25.98	14.22	0.00	0.00	71.07
Communities & Customer Engagement	0.97	0.00	0.00	0.00	0.00	0.97
Economic Development	2.31	0.74	0.00	0.00	0.00	3.05
Finance & Change	11.01	9.10	4.99	1.91	0.00	27.01
Health, Adults & Leisure	3.94	8.61	6.30	0.00	0.00	18.85
Housing & the Green Environment	15.17	6.94	6.00	4.20	1.50	33.82
Leader	5.63	4.09	0.00	0.00	0.00	9.72
Safer City	0.16	0.00	0.00	0.00	0.00	0.16
Transport & District Regeneration	70.00	53.44	17.52	22.19	31.70	194.85
Total General Fund	**140.07**	**108.90**	**49.03**	**28.30**	**33.20**	**359.50**
Housing Revenue Account	49.04	93.63	58.73	32.87	32.44	266.72
TOTAL CAPITAL PROGRAMME	**189.11**	**202.54**	**107.75**	**61.18**	**65.64**	**626.22**
Use of Resources						
*CR - GF Borrowing	(58.04)	(64.73)	(33.83)	(4.50)	(3.69)	(164.78)
*CR - HRA Borrowing	(19.33)	(54.30)	(27.98)	(4.40)	(4.40)	(110.42)
Capital Receipts	(4.12)	(13.03)	(4.82)	(1.99)	(1.99)	(25.95)
Direct Revenue Financing	(12.87)	(10.84)	(5.50)	(6.20)	(2.25)	(37.66)
Capital Grants	(67.69)	(33.33)	(9.70)	(17.61)	(27.26)	(155.60)
Contributions	(2.18)	(1.40)	(0.56)	(0.48)	(0.48)	(5.09)
HRA – MRA	(24.87)	(24.90)	(25.36)	(26.01)	(25.58)	(126.72)
Total Financing	**(189.11)**	**(202.54)**	**(107.75)**	**(61.18)**	**(65.64)**	**(626.22)**

*CR – Council Resources

NB. there may be small arithmetic variations in the tables as figures have been rounded