

Item No. 16.	Classification: Open	Date: 17 July 2012	Meeting Name: Cabinet
Report title:		Revenue Outturn Report 2011/12, including Treasury Management	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Richard Livingstone, Finance, Resources and Community Safety	

FOREWORD – COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY

This report sets out the outturn position for the council's revenue for the 2011/12 financial year.

On the general fund, the report shows the effective work that council departments have undertaken to implement savings in these difficult times. In many cases, this has been achieved through implementing planned savings earlier than originally planned and by careful control over expenditure. I wish to put on record my gratitude to our officers for the difficult work they have carried out to achieve these savings.

However, there are still some significant pressures: in particular, the anticipated saving of £1.5m from the customer services contract has not been achieved this year. Work continues to implement this saving as the service is brought back in-house.

Further, there are growing pressures in our budget in 2012/13 and future years as a consequence of further cuts. The Chancellor of the Exchequer announced last November that these cuts to council grants will continue until at least 2017 and current indications are that the cuts could continue for a decade. The council therefore needs to be well prepared to weather this storm.

Prudent management has allowed us to maintain the level of council reserves, but it must be noted that these reserves are in the main held to deliver key council priorities and transformation of services. Part of the reason for not drawing down on these reserves as much as anticipated is as a result of the slippage in elements of the capital programme, such as elements of the major works regeneration programme, as covered in the capital monitoring item elsewhere on this agenda.

The housing revenue account shows a positive variance, for reasons identified in the report. These need to be seen in the context of the borough being an outlier in the government settlement to end its subsidy of our housing, and so there are significant risks and debt on the council moving forward.

The report also identifies that the collection fund was in deficit for the year, partly as a consequence of a higher level of discounts being applied than anticipated.

Finally, the report covers treasury management through the year, including the requirement to replace the custodian service. Many of the issues here were covered in more detail in the treasury management report considered by Council Assembly on 4 July 2012.

RECOMMENDATIONS

1. That the cabinet:
 - notes the general fund outturn for 2011/12; and movement on reserves
 - notes the budget movements in Appendix A
 - notes the schools budget outturn, which has been taken to the dedicated schools grant reserve
 - notes housing revenue account's (HRA) outturn for 2011/12 and movement on reserves
 - notes the collection fund's year-end surplus balance
 - notes the treasury management activity for the year.

BACKGROUND INFORMATION

2. The purpose of this report is to present the council's financial position for the general fund, the HRA and planned use of reserves and balances for 2011/12. It also reports on specific performance in meeting targets for budget savings, the outturn position on the collection fund and the treasury management activity for the year. Any key variations against budget are explained.
3. 2011/12 was the first year of a planned three year budget cycle. Many of the actions taken to address the need for sustainable change were identified and implemented early in the financial year. Where possible necessary service efficiencies have been delivered in 2011/12 to ready the council for what is known to be a difficult financial position moving forward, particularly in relation to the risks associated with:
 - The local government resource review and proposals for local authorities to retain the business rates they collect. These receipts becoming a direct income stream to Southwark together with the financial risks associated with for example non collection or appeals against rateable values.
 - The increased risk of non collection of council tax through localisation of support for council tax due to a 10% reduction in government funding, coupled with the government's requirement on councils to protect pensioners and the vulnerable, meaning that the remaining benefit recipients will have to have their benefits cut, or council tax benefits will have to be subsidised from already reducing resources. A more detailed report is being presented elsewhere on this agenda.
 - The general uncertainty of local authority funding from 2013/14 onwards.

4. This action helped the council deliver a small net underspend against the total budget, which will be used to support the council through 2012/13 and future years.
5. The council will continue to monitor the revenue position, and report this on a quarterly basis to cabinet. There continue to be significant financial pressures from children and adults' social care requirements.
6. This report presents the outturn position on the net revenue budget. The draft Statement of Accounts was signed by the Finance Director on 29 June 2012. These accounts reflect this outturn position including any technical accounting adjustments.

KEY ISSUES FOR CONSIDERATION

General fund overall position

7. In February 2011, Council Assembly set a net budget for the year 2011/12 of £323m. Table 1 below provides an outturn position of £317m net expenditure against budget.

Table 1: General fund outturn position for 2011/12 at year end

General fund	2011/12 Original budget £'000	Budget movements £'000	2011/12 revised budget £'000	2011/12 outturn £'000	Variance - over / (under) £'000	Variance at Q3 2011/12 - over / (under) £'000
Children's services	90,438	42,308	132,746	132,817	71	0
Health and community services	112,913	(4,327)	108,586	108,319	(267)	0
Environment and leisure	68,660	22,023	90,683	90,669	(14)	95
Housing services	42,414	(5,379)	37,035	36,519	(516)	(72)
Regeneration and neighbourhoods	9,803	25,597	35,400	35,436	36	45
Deputy chief executive	9,277	(1,104)	8,173	8,278	105	0
Communities, law and governance	11,510	957	12,467	11,753	(714)	0
Finance and resources & strategic financing	28,703	(25,609)	3,094	1,517	(1,577)	60
Customer services centre contract	0	(1,500)	(1,500)	0	1,500	1,500
SCR income	(55,029)	(13,147)	(68,176)	(68,176)	0	0
Total general fund before appropriations	318,689	39,819	358,508	357,132	(1,376)	1,628
Contingency	5,500	(80)	5,420	0	(5,420)	(5,420)
Direct revenue funding of capital		3,755	3,755	3,755	0	0
Appropriations to/(from) reserves and other balances related to services	2,195	1,986	4,181	4,681	500	0
Appropriations to/(from) reserves related to schools balances	0	2,979	2,979	2,979	0	0
Appropriations to/(from) reserves for technical accounting purposes	0	3,555	3,555	3,555	0	
Appropriations from reserves – planned use of reserves to underwrite base budget	(3,363)	0	(3,363)	(3,363)	0	0
Council wide	0	(52,014)	(52,014)	(52,014)	0	0
General fund total	323,021	0	323,021	316,725	(6,296)	(3,792)

8. 2011/12 was a very challenging year for all services. The council faced unprecedented cuts in line with the government's settlement announced 31 January 2011. Many actions were taken at an early stage to deliver the savings required, especially in the context of a three year budget and on-going known budget challenges. Overall, strategic directors were able to deliver the planned essential and priority services, despite the difficult financial position, within budget.
9. The 2011/12 budget included a contingency budget of £5.5m in recognition of the uncertainties inherent in a net budget of £323m, representing around 1.7%. It was agreed that £80k of this contingency budget be used to set up an artefacts replacement and maintenance fund following the theft of the Dr Salter statue during the year.
10. Through a combination of one off favourable variances within departments and the use of reserves, it has not been necessary for the council to call further upon this contingency. This will be used as the first call for supporting the 2012/13 budget which, as agreed by Council Assembly in February 2012, had a planned £4.4m contribution from reserves to support the revenue budget. The balance will be used to replenish reserves, some of which are held to support the ongoing redesign of services and invest to save projects to make the council fit for the future.
11. Excluding schools balances, the table 1 shows there has been a net contribution to reserves of some £4.9m. However £2.5m of this movement relates to the contribution to the dedicated schools grant reserve which is ring fenced for schools, leaving £2.4m. This taken with the favourable outturn position of £6.3m means there has been a total contribution to reserves of £8.7m for general fund purposes.
12. As part of the setting of the 2011/12 general fund budget, the Council committed to a programme of general fund savings and efficiencies of £33.8m. The outturn position reflects the delivery of these savings targets. Savings are discussed further in paragraphs 62 to 69 and Table 4.

Key general fund variances

Children's services: Core / Non schools budget

13. Overall children's services achieved a £71k adverse variance (<0.1%) against budget, in the context of delivering the £5.76m savings target for 2011/12.
14. The early implementation of some of the 2012/13 savings and improved recruitment of social workers resulting in significant agency cost reductions has enabled the department to contain the one-off redundancy and retirement costs associated with these savings targets.
15. Further key budget variances for 2011/12 include:
 - Transport, where overall there has been a £700k reduction compared to the previous year expenditure which was achieved through re-negotiating contracted routes for the 2011/12 academic year.
 - Specialist services, where budget pressures continued as a result of the statutory responsibilities to children in families with no recourse to public funds, however, a reduction in the number of children placed in residential

placements this year across specialist services has resulted in a £600k favourable variance.

- Commissioning and market management, where a more robust approach has generated contract savings in the region of £400k as providers have responded positively to negotiations over contract prices.
- Children and families, where a reconfiguration of services to provide early help and so reduce the call on costly specialist services is underway. This has led to a favourable variance on the Early Intervention Grant pending the establishment of these new, local multi-disciplinary teams. The variance has been earmarked in a reserve to pump prime early help initiatives in schools and children's centres.

Health and community services

16. Health and community services are reporting a slight underspend of £267k year end, representing 0.2% of net budget. This has been achieved through strong financial planning and tight budgetary controls.
17. The department has a 3 year saving plan of £27m with a 2011/12 (year 1) target of £7.7m, consisting of a number of savings and efficiencies. Some of these targets were extremely challenging and a small percentage were not achieved within the planned timescales. The main pressure areas are shown below and more detail is provided in paragraph 64.
18. Delays in the re-design of mental health services resulted in underachievement against target of £313k. There was a shortfall of £170k on the closure of Holmhurst Day Centre for older people. Slippage in the timetable did not allow all savings to be achieved in year, however full year savings will be met in 2012/13.
19. The department was able to mitigate the slippage in the savings programme through delivering compensating savings, and these are outlined in paragraph 65.

Environment and leisure

20. The department is reporting an overall favourable variance of £14k, which is an improvement of £109k from the position forecast at the end of quarter 3, reflecting significant work by officers to enforce budgetary targets. The decision to bring forward some of the restructures required to achieve the savings target set for 2011/12 contributed to this improvement.
21. Similar to other London authorities, overall parking income is reducing and is below target due to improving compliance. Challenging income targets have been set in all services, including the new Canada Water Library, whilst simultaneously making savings. This is set against a backdrop of the overall economic recession and reduction in funding streams. However, this was more than offset by savings from reduced tonnage of waste disposed, as well as reduced staffing costs in libraries.
22. Previously forecast service closure costs for the Camberwell and other leisure centres were significantly reduced by robust contract negotiation. Similarly budget pressures caused due to the reduction of external grants were also successfully addressed.
23. Equally some of the costs of implementing the challenging savings have been

contained. As a result of restructuring, the department incurred additional redundancy and reorganisation costs of £2.1m. However some of these costs, £400k, could be offset against a combination of additional one off savings and unexpected favourable balances achieved. The remaining re-organisation costs of £1.7m are proposed to be funded from the Modernisation Reserve.

24. Management action continued throughout the year to consolidate the improvement in the overall departmental variance.

Housing services

25. Overall the housing general fund achieved a favourable variance of £516k.
26. In January 2011, responsibility for client services comprising the customer service centre (CSC), concessionary travel/ blue badges and complaints transferred from the deputy chief executive (DCE) on creation of the housing services department.
27. With improved contract management it was possible to realise savings within customer services through operational efficiencies, channel shift and volume reductions of £0.4m without adversely impacting on service delivery. In addition, restructuring of the client unit gave rise to a net positive variance against the employee budget of £0.1m.
28. As previously reported risks remained around temporary accommodation, particularly bed & breakfast placements and the availability of properties in the private rented sector. Procurement ran at a slower rate than planned due to market conditions, but was to some extent mitigated with the development of the hostels programme and additional estate void properties within the HRA, such that the outturn position for the general fund was better than it would otherwise have been. Moving forward, it remains crucial that the supply side is maximised as it represents a more cost effective alternative to bed & breakfast.
29. Other positive movements occurred on traveller's sites, where legislative changes necessitated a review of the travellers' lettings policy. Expenditure budgets are relatively small and operational running costs were lower than expected for 2011/12. In addition, positive variances in central support costs and cost reallocations between the HRA and general fund contributed further to the overall outturn position.

Finance and resources and strategic financing

30. Overall, finance and resources is reporting a favourable variance of £1.58m for the year, the majority of which will be used to absorb the customer services centre (CSC) contract savings of £1.5m. These were not achievable in 2011/12 and as previously reported have been managed corporately. The CSC savings target remains moving forward and will be monitored throughout 2012/13.

31. In 2011/12 the department continued with its ongoing restructure across all divisions. Other savings are the re-tender of the information services contract, the tender of the Tooley Street total facilities management contract and the re-organisation of the finance division. These are expected to yield savings as set out in the previous budget report. Where it was not possible in 2011/12 to meet savings as expected, as a consequence of slippage in implementation (e.g. finance restructuring), the department has been able to identify other options in substitution to ensure the overall target was achieved.
32. In achieving the year end position, reserves of £3.8m were released. A significant amount is related to one off costs associated with re-organisation, such as redundancy and early retirement costs amounting to £987k. In addition, and as part of the contractual arrangements with the current provider, IT assets have been taken back by the Council as part of the ongoing tender process (£750k). These assets will now remain in council ownership. A number of further costs relating to property disposal and acquisition (£497k) have been funded from the earmarked regeneration and development reserve.

Deputy chief executive (DCE) and DCE (Regeneration and neighbourhoods)

33. As part of the ongoing management restructuring, the deputy chief executives department and the regeneration and neighbourhoods department were brought together in 2011/12 under the overall management of the deputy chief executive. Further restructuring has seen the role of DCE deleted and these departments managed directly by the then acting chief executive.
34. Overall this new department had an unfavourable variance against budget of £141k.
35. Within the former DCE, favourable variances were achieved in the communications, corporate strategy and organisational development divisions. The favourable variance in organisational development emerged following agreement being achieved regarding the final centralisation of training and other associated development budgets.
36. The year end position for the former regeneration and neighbourhoods department was a small unfavourable variance of £36k. Performance across the divisions was generally on target.

Communities, law and governance (CLG)

37. The overall departmental outturn position, following reserve movements, is a favourable variance of £714k. This figure is represented by higher than predicted external legal income in relation to planning and property matters, favourable variances against administrative items from general cost saving measures across the services and the balance of London Council's funding that was reduced in year but kept within the departmental budget for this year to meet any pressures arising from the reduction in the London wide programme.

Support cost reallocations

38. Support cost reallocations are the costs of the central departments (finance and resources, deputy chief executive, communities, law and governance, customer services centre) which are recharged to service departments. The process is governed by service reporting code of practice, a code endorsed by the Chartered

Institute of Public Finance and Accountancy. The code requires that local authorities disclose the total cost of front-line services in their statement of accounts. In 2011/12 £68.2m of support costs were recharged across service departments to reflect the true costs of services. For the general fund services this was matched by their budget.

General fund contingency

39. Southwark council's 2011/12 general fund budget included a provision of £5.5m contingency. This was to enable the council to have sufficient flexibility to respond to the impact of economic uncertainty, service pressures, and any unforeseen events.
40. Following the theft of the Dr Salter statue, £80k of this contingency was used to create an artefacts replacement and maintenance fund.
41. As described earlier, the council was able to use reserves to manage the various service pressures that arose during 2011/12. The remaining £5.4m contingency will initially be transferred to the modernisation reserve, where it will be held to address the continuing one-off pressures such as redundancy costs that arise from the ongoing restructuring necessary for the council to meet its savings requirements and deliver invest to save initiatives, aimed at improving the efficiency of services.
42. However it has also been necessary to evaluate whether the level of other reserves are appropriate, for example the insurance reserve, particularly given the risks that a major event like London 2012 may pose to the council.
43. There is also a risk that the level of government funding the council receives in future years will continue to fall dramatically and require the use of reserves to enable the council to manage the organisational changes required.

Schools budget

44. The dedicated schools grant (DSG) budget achieved a favourable variance of £2.77m. The significant budget variances include: a favourable variance of £1.2m within early years mainly due to lower than anticipated take up of free entitlement for education of three year olds; a £700k favourable variance for school related contingencies and £700k favourable variance in the education related services operated by the council.
45. The DSG is a ring-fenced grant, and therefore, unspent grant is held within a specific reserve. The schools forum is consulted on the use of this reserve.

Table 2: Schools budget outturn position 2011/12

Schools	2011/12 Original budget £'000	Budget movements £'000	2011/12 revised budget £'000	2011/12 outturn £'000	Variance - over / (under) £'000	Q3 Variance - over / (under) £'000
Schools budget	0	(2,979)	(2,979)	(5,745)	(2,766)	(1,000)
Appropriation to/(from) schools balance reserves	0	2,979	2,979	2,979	0	0
Direct revenue funding of capital	0	0		212	212	0
Schools budget total	0	0	0	(2,554)	(2,554)	(1,000)
Appropriation to DSG reserve	0	0	0	2,554	2,554	1,000

46. The total revenue balances held in schools has increased by £2.98m to £13.73m. Uncertainties of the implication of the School Funding Reform may be contributing to schools' increasing balances.

Housing revenue account (HRA)

47. The HRA outturn position shows a positive variance against budget of £6.9m for 2011/12 which contributes to a more sustainable reserves position moving forward. This represents an improvement over earlier forecasts, but contains a number of items of an exceptional nature and planned reserve movements that contribute to this position. Previous reports have referred to underlying spending pressure across the piece and the forecasts have been necessarily cautious in this regard. Whilst the need to spend on landlord responsibilities for the maintenance and improvement of the housing stock remains high, it has been possible to manage these pressures within the overall resources available.
48. Area management shows a £2m positive variance comprising a range of budget movements across employees and estate running costs as a result of the departmental restructuring during 2011/12. Organisational changes have been implemented within the planned timeframe, delivering base budget savings in excess of the original target. These changes are now the subject of a six month review to identify and address specific operational issues and consider further service delivery improvements.
49. The need for emergency re-housing of secure tenants in temporary accommodation is an operational necessity. Given its nature it is difficult to predict the level of demand but this has exceeded target during the year (£0.3m) which falls to the HRA rather than the general fund. This is recognised as an on-going risk that requires robust case management to minimise the cost impact on the HRA and is a management priority moving forward.
50. Rent collection performance showed 98.9% for mainstream residential stock. Whilst this was below the target collection rate, it still represents good performance given the current economic conditions. Conversely, rent income (rent debit minus voids) was better than budget as stock losses arising from regeneration schemes, RTB and

ad-hoc disposals were lower than estimated, together with reduced void numbers, giving rise to a net positive variance of £1.6m.

51. The maintenance & compliance division comprises reactive and planned repairs and engineering and heating repairs. Contract management continues to show improvement, but the demand-led nature of the service means budgets are under constant pressure and there are a number of budget movements both positive and negative across the activity that contribute to the variance. In particular, spend on compensation and legal fees was £1.59m higher than budget as the backlog of old and complex disrepair cases was reduced by over 50% during 2011/12. This is extremely resource intensive but is on a downward trajectory and remains a key management priority with the aim to eliminate claims arising in the first instance through improvements in the repairs service.
52. Southwark building services (SBS) – operational and strategic management of the service was brought back in-house in September 2011 and the structure of the workforce has been reconfigured to deliver measurable improvement in efficiency, quality and productivity at reduced cost. Excluding one-off costs of redundancies and restructuring, which have been met centrally within the HRA, the trading account shows an operating surplus of £0.4m, which is returned to the HRA as its primary client.
53. The major works division is primarily responsible for delivery of the Warm Dry Safe initiative and other landlord responsibilities within the housing investment programme (HIP). The variance occurs on the budget for electrical testing and safety compliance works. The requirement to re-tender works contracts led to programme slippage during 2011/12, but unspent resources (£2.3m) have been carried forward to fund the catch-up programme during the current financial year.
54. Revenue service charges of £16.5m were billed which is on target and £8.3m (net) of capital works against a budget of £9.7m. This represents the unadjusted billing figure before matching against actual expenditure incurred during the year, in accordance with accounting principles.. This required the exclusion of £4.5m in income which could not be recognised in the 2011/12 accounts. Collection performance has held up well with £7.2m and £16.3m collected for major works and service charges respectively against targets of £7.5m and £14.5m.
55. Commercial property has a negative variance of £0.2m in the rental income stream, as part of an overall variance of £0.4m for the activity. The portfolio is managed by property division on behalf of the HRA and cliented within the home ownership unit (HOU). Management action has been taken to control costs, but the prevailing market conditions on the income side are acknowledged to be difficult which compounds the situation.
56. The strategic services activity comprises all departmental overheads and non-operational functions within the HRA, specifically housing subsidy, debt financing, revenue contributions to the HIP and corporate and shared service functions provided to the HRA, together with costs associated with large-scale regeneration projects and other exceptional costs. Grant Thornton undertook an independent review of recharging arrangements between the HRA and the general fund during

2011/12 and their recommendations form part of an agreed action plan that was partially implemented in 2011/12 and will conclude in 2012/13.

57. For clarity and to aid consistency between the HRA and general fund, those items of expenditure that represent the appropriation of funds to reserves and revenue support for the capital programme are now identified separately within table 3 below. The level of revenue support for the housing investment programme in 2011/12 includes one-off funds towards the cost of Heygate demolition and for Lakanal, following settlement of the claim with the council's insurers. This has been set aside pending a decision on its future.
58. The community housing services (CHS) division encompasses temporary accommodation, housing options, tenancy sustainment, housing adaptations, resident involvement, business improvement and the South East London Housing Partnership.
59. Temporary accommodation in the HRA is designed to be cost neutral and mitigate some of the pressure on the homelessness budget in the general fund. The availability of estate void properties was greater than budgeted which generated additional rental income. This together with lower repair costs and the early realisation of efficiency savings in employee budgets has contributed to the positive year-end budget position.
60. The heating account is a notional ring-fenced account within the HRA, comprising the fuel only elements for the provision of district heating to council tenants and leaseholders. It is maintained on a trading account basis with any surplus/ deficit being carried forward. Surpluses can be used to mitigate future charge increases or to fund energy efficiency measures to communal heating systems that in turn generate additional cost savings. Contract procurement savings achieved during 2011/12, lower consumption due to the mild winter and resolution of long-standing creditor liabilities in the council's accounts gives rise to an operating surplus of £2.5m which has been taken to the heating account reserve.
61. The ring-fenced nature of the HRA requires that deficits/surpluses are carried forward between years giving rise to movement in the level of reserves. Previous reports have indicated that reserves were considered to be below the optimum level commensurate with the size of Southwark's combined revenue and capital programmes and represented a financial risk. In line with the principles of the medium-term financial strategy, the planned replenishment of reserves has continued and now stand at £27.5m, which represents good progress towards restoring balances to a more prudent and sustainable level.

Table 3: HRA outturn position for 2011/12

Divisions	Net Expenditure			
	Full Year Budget £'000	Outturn £'000	Variance £'000	Forecast Variance reported at Q3 £'000
Area Management	(153,514)	(155,496)	(1,982)	(331)
Maintenance & Compliance	43,072	45,395	2,323	460
Major Works	4,239	1,836	(2,403)	(51)
Home Ownership	(34,257)	(28,446)	5,811	2,510
Strategic Services	103,895	96,325	(7,570)	(1,812)
Community Housing Services	4,536	1,775	(2,761)	(1,115)
Regeneration Initiatives	1,529	1,443	(86)	17
Heating Account	9,698	9,109	(589)	0
HRA Carry Forward	0	658	658	(303)
Direct Revenue Funding of Capital	14,827	20,491	5,664	0
Appropriations to /(from) Reserves	5,975	6,910	935	625
Total HRA	0	0	0	0

Savings and efficiencies - 2011/12 budget - Outturn

62. The council targeted £56.2m combined savings and efficiencies for the general fund and housing revenue account in 2011/12. At the end of the year, £53.8m of these targeted savings were achieved. Details of departmental variances are provided in the paragraphs below.

Table 4: Performance against targeted savings and efficiencies

Departments	Agreed by Council £'000	Total savings achieved £'000	Variance (M11) £'000	Compensating savings identified £'000
Children's services	(5,763)	(5,346)	417	0
Health and Community Services	(7,745)	(7,396)	349	(349)
Environment and leisure	(7,328)	(7,138)	190	(190)
Housing general fund	(554)	(554)	0	0
Customer services centre	(1,500)	0	1,500	0
Finance and resources	(5,904)	(5,904)	0	0
DCE: Regeneration & neighbourhoods	(1,644)	(1,644)	0	0
Deputy Chief Executive	(2,289)	(2,289)	0	0
Communities, Law and Governance	(1,092)	(1,092)	0	0
Total General Fund	(33,819)	(31,363)	2,456	(539)
Housing Revenue Account	(22,399)	(22,399)	0	0
Total Savings 2011/12	(56,218)	(53,762)	2,456	(539)

63. Children's services were able to achieve the majority of savings planned in 2011/12. However where there was a shortfall in the savings target, for example in youth services due to delays in implementation, it was possible for these unfavourable variances to be offset by the significant favourable variances within the overall children's services budget.
64. In health and community services, there was a shortfall of £349k against the budgeted savings of £7.7m. This is broadly in line with the position reported at quarter 3. The detail breakdown is as follows:
- A variance of £163k on the rationalisation and redesign of council run day centres has been reported previously in Q2 and Q3. This has been due to the extension of consultation for the closure of Holmehurst.
 - A £161k variance is reported against the target of reducing the supporting people budgets by £3m. This saving has been across a range of complex contracts and whilst there has been slippage the full year saving has been achieved.
 - Savings of £537k were achieved in the mental health services managed by the South London & Maudsley Trust, against a target of £650k. These were largely staffing savings, and further work is being done to consider if and how further savings could be achieved
65. However, compensating savings were achieved in year through various new initiatives, including re-ablement, review of care packages and reducing residential placements.
66. Reduced unit costs for home and residential care achieved through better spot purchasing and procurement arrangements administered through a central brokerage team proceeded better than planned, and resulted in an extra saving of £283k being achieved.
67. Environment and leisure are reporting an unfavourable variance on savings of £190k, which is unchanged from the position reported at quarter 3 and is as a result of the following:
- Reduced costs through procurement of the new parking enforcement contract were not realised (variance £160k). A contract extension was awarded to bring in line the possible sharing of resources. Although negotiations on shared services with respect to parking are progressing well, savings for 2012/13 will not be realised until 2013/14 as the current contract does not expire until February 2013.
 - There was a £30k shortfall in the £184k ecology grants put forward as savings which could not be achieved due to the requirement to taper the grants.
68. As previously reported, a significant element of the customer services savings was dependent on realigning the Vangent contract, which is not expected to be achieved until the latter part of the current three year planning horizon. This means that it was

not possible to achieve the savings of £1.5m planned for 2011/12. These savings were split as follows:

- £500k in respect of a savings requirement built into the existing Vangent contract
- £1m in respect of Vangent contract savings through realignment. The shortfall in savings this year has been addressed corporately.

69. All other departments were able to report full achievement of planned savings.

Collection fund

70. As a billing authority the council is required to maintain a collection fund account, which shows the transactions of the billing authority in relation to non-domestic rates and council tax, and demonstrates the way in which these have been distributed to preceptors and the general fund. The council must take into account the estimated surplus or deficit on the collection fund balance when setting the council tax for the following year, and this is usually based on the quarter three estimate. The estimated deficit at quarter three was £166k, split between the council and the Greater London Authority (GLA), with the council's share being £124k and the GLA's being £42k.

71. The final year-end balance on the collection fund was a deficit of £123k (£92k Southwark and £31k GLA), which overall is an £43k improvement to that expected at quarter three. This is the unaudited outturn balance based on March 2012 system reports.

Reserves

72. The council retains a level of earmarked reserves and these are reported each year within the annual statement of accounts. These reserves are maintained to finance expenditure for items that are difficult to predict and that are not included in revenue budgets or within the capital programme. They relate especially to invest to save opportunities that form part of the modernisation agenda and expected to deliver future ongoing revenue savings. They are also held for investment in regeneration and development where spend may be subject to an unpredictable market and other influences.

73. The total of earmarked reserves excluding those held for schools (dedicated schools grant reserve & schools balances) is £76m. This figure will differ from the final figure published in the statement of accounts, mainly as a result of the movement of grant balances to reserves. Table 7 shows the purpose for which these funds are held.

Table 5: Summary of general fund reserve movements as at outturn

Reserves	£'000
General fund earmarked as 1 April 2011	(68,205)
<u>Release of reserves</u>	
Use of reserves to support services	5,373
Use of reserves to re-organisation	2,676
Use of reserves to regeneration	878
Use of reserves to support accommodation strategy	1,372
Use of reserves to fund capital expenditure	774
Planned movement in reserves	3,363
Total release of reserves	14,436
<u>Contribution to reserves</u>	
Contribution to reserves to support future services	(10,741)
Contribution to reserves to support community projects	(685)
Contribution of unused general fund contingency	(5,420)
Planned contribution to Aylesbury regeneration project	(1,000)
General fund outturn taken to reserves	(876)
Total contributions to reserves	(18,722)
General fund earmarked as 31 March 2012 before technical adjustments	(4,286)
Technical accounting contribution to reserves	(3,555)
General fund earmarked as 31 March 2012 after technical adjustments	(76,046)

74. Reserves are also released to meet costs that arise during the year under exceptional circumstances. The council in seeking to achieve planned budget savings has incurred one-off re-organisation and redundancy costs of £2.676m.
75. Excluding the technical and budgeted contribution to reserves, there was a net contribution to reserves to support general fund services in future years, as shown in Table 5 above. The contribution to reserves for community projects includes funding received for the replacement of artefacts lost during the year and also funding set aside from savings to the council following industrial action. The movements in general fund earmarked reserves are reflected in the budgets in Table 1 above and subject to existing approval arrangements.

Table 6: Analysis of movements to (from) reserves

Analysis of movements (to)/from reserves	£'000
Planned	2,363
Technical	(3,555)
To support current and future services	
Regeneration projects	878
Office accommodation/localities programme	1,372
Reorganisation programme / service redesign redundancy costs	2,676
Other service related	(5,368)
Community purposes	(685)
Capital purposes	774
Contingency	(5,420)
Transfer of general fund outturn	(876)
Total	(7,841)

76. Reserves balances are also held to fund future capital projects. In 2011/12, £774k was drawn down to fund capital expenditure, this included expenditure related to the development of Cator Street and refurbishments to Dulwich Leisure Centre.
77. As stated in paragraphs 9 and 10 , the budget contained a contingency budget of £5.5m, £5.4m of which was unused and therefore has been put into reserves to help fund the following:
- commitments in future years that arise from the council's modernisation agenda
 - unforeseen liabilities that may arise in the future.
78. The favourable general fund outturn variance on services has been set aside to fund specific capital projects in future.
79. The technical movement in reserves in tables 5 and 6 relates to a significant contribution to reserves for 160 Tooley Street of £2.3m. This movement is for accounting reasons and relates to the re-profiling of the rents to an average rent over a set period of years taking into account an initial rent free period. For similar reasons there is also a drawdown from reserves for Queens Road of £281k.
80. There was also a significant contribution to reserves of £1.5m in respect of the smoothing of the waste PFI unitary charge. This contribution to reserves will cover the longer term (25 year) life cycle cost of the project.
81. The table below illustrates how the reserve balance is allocated across the main earmarked reserve headings.
82. In line with the Medium Term Resources Strategy (MTRS), the Council has maintained appropriate earmarked reserves, in order to mitigate future risks, fulfil future commitments already made, and to provide resources to enable services to transform over time.
83. Corporate projects and priorities reserves are held to fund those future activities that

will enable the council to function more efficiently and effectively. They include resources held to meet the cost of ongoing re-organisation and restructuring that the Council must undertake to modernise and improve service levels and operational efficiency of Southwark's activities.

84. Service reviews and improvements represent resources held that can be directly linked to services provided.
85. Capital programme and other capital investment reserves are held to fund one-off expenditure that may be incurred over more than one year and by its nature is not appropriate to be included within annual revenue budgets, to facilitate the significant regeneration and development taking place in the borough. Projects include the Elephant & Castle, Canada Water, Southwark Schools for the Future, land acquisitions and other significant one-off costs associated with these projects.
86. Strategic financing, technical liabilities and future financial risks reserves are in the main held to mitigate against future financial risks that may arise. For example, taxation risks, legislative and funding changes including actions involving the Greater London Authority and other government bodies, risks as a result of unavoidable changes in accounting practice, and circumstances in so much as they represent uninsured risks. They also include balances that are held for technical accounting reasons as described in paragraph 79.

Table 7: Revenue and capital earmarked reserves

Type of reserve	Opening balance as at 01 April 2012	Movement in year	Transfers between reserves	Closing balance as at 31 March 2012
	£'000	£'000	£'000	£'000
Corporate projects and priorities reserves				
Modernisation, service & operational improvement reserve	(7,307)	1,208	954	(5,145)
Regeneration & Development Reserve	0	722	(722)	0
Community, Business and Youth Support Funds	0	(2,473)	0	(2,473)
Financial Risk & Future Liabilities Reserve	(436)	(2,439)	0	(2,875)
Funds set aside for future risks	(100)	(100)	0	(200)
Funds set aside for specific projects	(2,806)	325	0	(2,481)
Revenue Grants	(199)	(145)	0	(344)
Subtotal	(10,848)	(2,902)	232	(13,518)
Service reviews and improvements reserve				
Service reviews and improvement	(1,197)	(3,097)	0	(4,294)
Subtotal	(1,197)	(3,097)	0	(4,294)
Capital programme and other capital investment reserves				
Capital contingency	(2,231)	(420)	0	(2,651)
Modernisation, service & operational improvement reserve	0	(6,364)	0	(6,364)
Regeneration & Development Reserve	(7,028)	273	759	(5,996)
Financial Risk Reserve	0	0	0	0
Departmental balances carried forward	(579)	579	0	0
Funds set aside for specific projects	(5,904)	(5,253)	0	(11,157)
Performance Reward Grant	(4,335)	4,335	0	0
Subtotal	(20,077)	(6,850)	759	(26,168)
Strategic financing, technical liabilities and future financial risks reserves				
Modernisation, service & operational improvement reserve	0	281	(954)	(673)
Regeneration & Development Reserve	0	37	(37)	0
Financial Risk & Future Liabilities Reserve	(7,763)	3,363	0	(4,400)
Funds set aside for specific projects	(10,734)	(478)	0	(11,212)
Funds set aside for future risks	(17,586)	1,805	0	(15,781)
Subtotal	(36,083)	5,008	(991)	(32,066)
Total	(68,205)	(7,841)	0	(76,046)

Schools funding reserves movements

87. The main funding for schools comes from the dedicated schools grant (DSG) which is largely passed directly to schools in the form of a school budget share each year, with the remainder of the grant held centrally.
88. Table 8 below shows a £2.5m increase in the DSG reserve which represents the amount of grant held centrally that was not used in 2011/12. The movement in schools' balances of £2.98m represents an increase in the balance held by schools in their school bank accounts.

Table 8: Summary of schools funding reserve movements

	2011/12 opening balance	Change in reserves	Release of reserve for capital	2011/12 closing balance		2011/12 forecast closing balance as at Q3
Reserve	£'000	£'000	£'000	£'000		£'000
DSG reserve	(4,819)	(2,554)	0	(7,373)		(5,106)
Schools balances	(10,754)	(5,285)	2,305	(13,734)		(10,754)
Total	(15,573)	(7,829)	2,305	(21,107)		(15,860)

HRA reserves movement

89. Table 9 below shows a £6.9m increase in the HRA reserve which represents in year movements to reserves, plus the favourable variance achieved for the HRA for 2011/12.

Table 9: Summary of reserve movements for HRA as at outturn

	2011/12 opening balance	Change in reserves	Release of reserve for capital	2011/12 closing balance		2011/12 forecast closing balance as at Q3
Reserve	£'000	£'000	£'000	£'000		£'000
HRA earmarked	(20,577)	(6,910)	0	(27,487)		(21,202)
Total	(20,577)	(6,910)	0	(27,487)		(21,202)

Treasury management

90. The council's treasury management activity relates to both cash and debt balances. The cash earns interest until it is needed in spending and the debt funds current and past capital spend met through borrowing. Currently three investment firms manage the council's investments together with an in-house operation, which focuses on meeting day to day cash volatility using money market funds, call accounts and short term deposits. The priority is for capital preservation and exposure to banks and building societies is confined to major high rated entities with a high likelihood of

state support in the event it was needed. Exposure to UK Gilts, European Investment Bank (EIB), and the International Bank for Reconstruction & Development (the World Bank) helps strengthen security further.

91. The balance on deposit with major banks and building societies and in bonds is set out in table 10 below.

Table 10: Exposure to counterparty and ratings

EXPOSURE - MAR 2012 COUNTERPARTY AND RATINGS										
Exposure £m	FUND					Fitch Ratings				
COUNTERPARTY	Aberdeen	Alliance Bernstein	Invesco	In-House	£m	Long	Short	Support	Sovereign	Sovereign Rating
NORDEA BK FINLAND				15.0	15.0	AA-	F1+	1	FINLAND	AAA
CREDIT INDUST ET COMRCL	1.0				1.0	A+	F1+	1	FRANCE	AAA
DEUTSCHE BK				15.0	15.0	A+	F1+	1	GERMANY	AAA
GLOBAL TREAS FUNDS-MMF				25.0	25.0	Money	AAA		GLOBAL	Money Fund
ABN AMRO BK	5.0				5.0	A+	F1+	1	NETHERLANDS	AAA
ING BK	5.0	1.0	3.5		9.5	A+	F1+	1	NETHERLANDS	AAA
EUROPEAN INV BK	6.2	6.9			13.1	AAA	F1+		SUPRANATIONAL	AAA
INT BK RECONST DEVT	3.5	4.8			8.3	AAA	F1+		SUPRANATIONAL	AAA
SVENSKA	2.7	1.0			3.7	AA-	F1+	1	SWEDEN	AAA
UBS	3.1			15.0	18.1	A	F1	1	SWITZERLAND	AAA
BARCLAYS BK		1.0	6.5	12.8	20.3	A	F1	1	UK	AAA
HSBC	0.4		0.7		1.1	AA	F1+	1	UK	AAA
LLOYDS TSB/BK SCOTLAND		1.0			1.0	A	F1	1	UK	AAA
NATIONWIDE BSOC	4.0	1.5		10.0	15.5	A+	F1	1	UK	AAA
SANTANDER UK	4.5			15.0	19.5	A+	F1	1	UK	AAA
UK TREASURY	2.1	1.1			3.2	AAA	F1+		UK	AAA
BK OF NOVA SCOTIA	3.5				3.5	AA-	F1+	1	CANADA	AAA
COMMONW BK AUSTRALIA				10.0	10.0	AA	F1+	1	AUSTRALIA	AAA
NATIONAL AUSTRALIA		0.5			0.5	AA	F1+	1	AUSTRALIA	AAA
Total £m	41.0	18.8	10.7	117.8	188.3					

92. Financial conditions improved over the last quarter following a number of measures by central banks towards the end of 2011, which included the provision of unlimited three-year funding by the European Central Bank (ECB) against a wide range of collateral and co-ordinated intervention to provide liquidity in foreign exchange markets. Equity markets and bank funding conditions improved and agreement was reached on further international assistance to Greece. However, concerns over the pace of growth and the competitiveness of some euro-area states persisted and although sovereign yields in those countries improved after the ECB funding, they still remain elevated. Outside Europe, investor demand for haven assets contributed to the cost of borrowing in the UK and US remaining low.

93. Towards the end of March 2012, the council repaid £100m in high coupon debt (rates above 9%) maturing in 2014/15 and replaced it in April 2012 with new loans at 3.20%, repayable over a period of 20 years in equal instalments. The repayment was funded from general fund cash and £82m was drawn down from the three fund managers and the remainder was met from funds managed in-house. The repayment involved premium of £20.6m, shared between the HRA (83%) and the general fund (17%) according to their respective share of debt and will be written out over 20 years. The exercise secures low coupon loans and reduces refinancing risk in 2014/15.

94. Debt was further reduced by £199.3m as part of HRA self-financing by the government in March 2012. From April 2012, HRA debt interest will fall and in return, it will have to meet all future interest and running costs from its own resources rather than rely on HRA subsidy as before.
95. The £100m debt refinancing and the £199.3m self-financing payment together reduced debt to £462.5m as at 31 March 2012. However the £100m replacement borrowing in April 2012 raises debt to £562.5m.
96. In March 2012, HSBC Bank, which provided custodian services to the fund managers, gave three months' notice that it no longer wished to provide the service. The council is currently in negotiation with a replacement provider so that it can continue to use external fund managers.

Community impact statement

97. This report monitors expenditure on council services, compared to the planned budget agreed in February 2011. Although this outturn report in itself has been judged to have no or a very small impact on local people and communities, the expenditure it is reporting was designed to have an impact on local people and communities, which will have been considered at the time the services and programmes were agreed. It is important that resources are efficiently and effectively utilised to support the council's policies and objectives.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
2011/12 Revenue monitoring / Outturn	160 Tooley Street London SE1 2QH	Vernon Smith 020 7525 7355

BACKGROUND DOCUMENTS

No.	Title
Appendix A	Budget movements

AUDIT TRAIL

Cabinet member	Councillor Richard Livingstone, Cabinet Member for Finance, Resources and Community Safety	
Lead officer	Duncan Whitfield, Strategic Director of Finance and Corporate Services	
Report author	Jennifer Seeley, Finance & Corporate Services	
Version	Final	
Dated	5 July 2012	
Key Decision	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Director of Legal Services	No	No
Strategic Director of Finance and Corporate Services	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team	5 July 2012	