Item No. 23.	Classification: Open	Date: 22 July 2014	Meeting Name: Cabinet
Report title:		Revenue Outturn Report 2013/14, including Treasury Management	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Fiona Colley, Finance, Strategy and Performance	

FOREWORD – COUNCILLOR FIONA COLLEY, CABINET MEMBER FOR FINANCE, STRATEGY AND PERFORMANCE

This report sets out the full year outturn of the council's revenue budget for 2013-14. In response to yet more cuts in government funding we set a budgets in February 2013 with savings targets of £25m for the general fund and £6m for the housing revenue account. I'm pleased to report that these savings have been achieved and our thanks must go to officers across the council for their hard work and careful management which has enabled us to continue to provide high quality services despite these reducing budgets. This achievement means that contingencies built into the budget were not required and will be rolled forward to help fund the £6.2m contribution from reserves we have factored into the current year's budget.

The report also sets out in full the movements in reserves, the principle item of note being the £8.2m underspend in the Dedicated Schools Grant. The reasons for this are set out in full in paragraph 19. The allocation of this underspend will be discussed at the Schools Forum meeting this month.

There is good news on the collection of council tax, where we have achieved a surplus of £2.7m. This is due to a combination of better performance of our in house collection team and the growth in residential properties liable for council tax increasing beyond estimates made in January 2013. Collection of business rates is also performing well, however we have inherited from DCLG a significant risk in outstanding appeals against Valuation Office decisions, and we need to make provisions for this as set out in paragraphs 88 - 94 of the report

This report includes a treasury management update, the main news in this update is that over the year the council has been able to pay off £80m high rate housing debt and thus significantly reduce the interest we are paying to service that historic debt. It also flags our plans to support the LGA proposal to establish a Municipal Bond Agency as an attractive alternative source of borrowing to the existing Public Works Loan Board which will give the council the potential for lower interest rates on future borrowing.

RECOMMENDATIONS

1. That the cabinet:
   - notes the general fund outturn for 2013/14 and movement on reserves,
   - notes housing revenue account's (HRA) outturn for 2013/14 and movement

on reserves,
- notes the schools budget outturn, which has been taken to the dedicated schools grant reserve,
- notes the collection fund's year-end surplus,
- notes the treasury management activity for the year
- notes the investment of up to £200,000 in the Municipal Bond Agency (subject to council assembly approval on 16 July 2014)

2. That the cabinet notes the performance for the collection of council tax.

3. That the cabinet notes the performance for the collection of business rates and the risks associated with the Business Rate Retention Scheme.

4. The cabinet approves the general fund budget movements that exceed £250k, as shown in Appendix A.

BACKGROUND INFORMATION

5. 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 2013/14.

6. The council agreed a balanced general fund budget of £327.8m on 27 February 2013 based on a nil council tax increase, and £6.3m use of reserves, giving a budget of £334.1m. This budget was set in the context of further significant overall cuts in government funding and the identification of some 25% savings proposals over the three years from 2011/12 to 2013/14 to mitigate against the reduction in resources and to continue to fund the council's commitments in terms of services provided.

7. The council also approved budget decisions including reductions of some £25m within general fund for 2013/14. Performance on achieving these savings is closely monitored and details are provided in paragraphs 63 to 65 below.

8. The Council Plan placed local needs and accountability as the drivers of performance improvement, and in an environment of significantly reduced funding, the council has to change in fundamental ways. There are a number of transformation projects underway, and work continues to identify further ways of transforming the delivery of services. These transformation or invest to save projects may be funded from on-going positive variances or previously created earmarked reserves which were established to pump prime initiatives.

Housing revenue account

9. Cabinet set tenants' rents and service charges on 29 January 2013 in line with the government's prescribed formula. The budget included a £6m savings target for 2013/14. The starting point of this process was to listen to residents' concerns about the services they wish to protect, and identify the potential for better value for money and more efficient ways of working.

KEY ISSUES FOR CONSIDERATION

General fund overall position

10. In February 2013, Council Assembly set a net budget for the year 2013/14 of

£327.8m. Table 1 below provides an outturn position of £327.7m net use of resources against budget.

11. Summaries for each department are included in paragraphs 15 to 44 below.

Table 1: General fund outturn position for 2013/14 as at year end

General fund	Original budget £'000	Budget movements £'000	Revised budget £'000	Spend in year £'000	Reserve movement £'000	Total use of resources £'000	Variance £'000
Children's and adults services	214,342	(9,454)	204,888	197,494	7,689	205,183	295
Environment and leisure	69,386	6,667	76,053	78,102	(2,063)	76,039	(14)
Housing and community services	39,524	(438)	39,086	40,133	(1,136)	38,997	(89)
Chief executive's department	20,566	(2,406)	18,160	15,835	2,107	17,942	(218)
Finance and corporate services	42,181	(768)	41,413	35,886	5,450	41,336	(77)
Support cost recharges	(57,956)	6,399	(51,557)	(51,557)	0	(51,557)	0
Total general fund services	**328,043**	**0**	**328,043**	**315,893**	**12,047**	**327,940**	**(103)**
Contingency	5,000	0	5,000	0	5,000	5,000	0
Planned contribution to Aylesbury reserve	1,000	0	1,000	0	1,000	1,000	0
Contribution from balances to underwrite base budget	(6,271)	0	(6,271)	0	(6,271)	(6,271)	0
General fund total	**327,772**	**0**	**327,772**	**315,893**	**11,776**	**327,669**	**(103)**

Note: Explanations of this quarter's budget movements are provided in Appendix A.
Q1 Q2 and Q3 movements were reported in appendices to the previous revenue monitoring reports.

12. The outturn position includes the costs of one off re-organisation and redundancy costs that the council expects to incur as it continues to put into action plans necessary to deliver the ongoing savings identified within the budget.

13. As shown in Table 1, within services there is a favourable on the information available at outturn. This takes account of expected movements to and from reserves in relation to services.

14. Table 1 reflects budget movements for the full year, Appendix A details the quarter four movements only for cabinet to approve or note as is appropriate. Budget movements for quarters one, two and three were reported to cabinet on 17 September 2013, 19 November 2013 and 18 March respectively.

Children's and adults services (narrative awaiting management clearance)

15. Children's and adults' services outturn is £295k adverse variance; this equates to 0.1% of the total 2013/14 budget of £214.3m; previously a balanced position was forecast. This overspend includes the impact of reserve movements, if the impact of these is excluded, the position is £1.9m adverse variance.

16. Children's Social Care adverse variance totalled £2.6m increasing to £4.6m

when taking into account the need to set up a reserve to support anticipated 2014/15 budget pressures in Children's Social Care. Throughout 2013/14 budget pressures resulting from increased activity in residential placements earlier in the financial year and financial assistance given to destitute families with no recourse to public funds have been reported. At quarter three, the adverse forecast of £3.0m included the £400k commitment to pay for Special Guardianship Order and Residential Orders increased payments, however, this is now a provision to be paid during 2014/15.

17. As previously reported, Education Services outturn is favourable and the final year end variance of £400k arose in the main from staffing vacancies. Prior to reserve movements the position was £1m adverse which included one-off redundancy costs met from corporate reserves/contingency. Strategy, Commissioning and Business Improvement outturn is £120k favourable as previously reported, after taking into account various reserve movements to cover expenditure for professional fees associated with the delivery of the schools capital and PFI programmes.

18. Adults' Services final position was £3.9m favourable variance after year end adjustments including a reduction in the provision for debts of £720k (arising from the fact that Adults Debt reduced by 21% last year). As previously reported Adults' Services favourable budget variance in the main arises from grants which have been rolled forward from prior years. These one-off monies were being held as contingency against demand pressures which have been managed through a series of modernisation initiatives.

Schools budget

19. The Dedicated Schools Grant (DSG) final grant outturn was £8.2m underspend, which includes £4.2m of funding that will be distributed to schools and three and four year old early years providers in the next financial year. The council has been cautious regarding the new DSG funding system, which is currently experiencing significant changes annually which have proved difficult to predict. The key variances that make up the £8.2m are:
    - £3.12m of funding received during the year, after the original budget was set, and which funding rules prohibit being distributed to maintained schools in year.
    - As previously reported, an additional unspent allocation of £2.6m for two year olds arising whilst the capacity for two years olds continues to build;
    - £2.2m underspend on council retained service arose for contingencies held on behalf of schools for growth, and in year adjustments for high needs pupils.

20. A high proportion of these favourable variances are one-off. The Schools Forum will consider the application of these funds at the July meeting to include proposals to allocate funding to all schools and to support the LA with central budget pressures such as the implications of the Children's and Families Act.

21. At the end of the 2013/14, individual schools balance rose by £1.2m to £17.1m; equivalent to 11% of their overall budgets.

Environment and leisure

22. The department is reporting an overall favourable variance of £14k, compared to a £302k favourable variance position reported at the end of the third quarter. The reduction was mainly due to transfers to reserves at year end and funding redundancy costs of around £164k, thereby reducing the call on reserves.

23. The ring fenced parking account made a surplus of £800k as a result of continued improvements and efficiencies in the contract management. This surplus was transferred to an earmarked reserve to support capital schemes in improving the conditions on our roads and making our roads safer for cyclists. In addition, £150k reserves were set aside to cover contract variations for the leisure management contract.

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

25. The department also fully achieved £2.7m savings agreed by the council in setting the 2013/14 budget, whilst maintaining essential front line services. The majority of the savings were from major procurements of the highways and parking contracts. These were completed within the agreed timescales.

Housing and community services (H&CS)

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30. Overall, housing and community services (H&CS) delivered a favourable outturn variance of £89k, including one-off redundancy costs and after corporate reserve movements. This represents an improvement over the position reported at quarter three.

31. In June 2013 the General Dynamics Information Technology (GDIT) contract was mutually terminated and delivery of the customer service centre (CSC) was successfully brought in-house. This provided the opportunity to reconfigure and improve customer access and service delivery and drive out substantial savings over the medium-term. An initial £3m savings target was assumed for year one

(2013/14) and this has largely been delivered notwithstanding the legacy commitments for the first two months up to termination in May. In terms of ‘business as usual’, the net outturn for the CSC is as expected £132k above budget. Transition costs relating to the development and implementation of the new customer relationship management (CRM) software, telephony and infrastructure upgrades have been accounted for separately from the routine operating expenditure and addressed through the drawdown of corporate reserves earmarked for this purpose. Further savings will be delivered as council services are rationalised and the drive towards more cost effective transaction routes and customer access channels continues.

32. In addition to the CSC, the customer experience division comprises registrars and coroners, customer resolution, blue badges and concessionary travel, homelessness and housing options and mobile alarm service (SMART). The headline outturn position for the division as a whole is £193k, but includes one-off redundancy costs of £334k which have been contained without recourse to the drawdown of reserves as previously anticipated.

33. The transfer of the registrar and coroner services to housing and community services came with some historic budget anomalies, which have now been addressed. However, it remains necessary to maintain an increased capacity in the coroner’s service (at the coroner’s discretion) to address current volumes and the backlog of cases. The additional cost (£147k) takes the activity overall into deficit for the year (£68k) taking into account the recoupment from the other consortium members. If caseload remains at current levels, it will require remedial action as part of 2015/16 budget setting.

34. Expansion of the customer resolution function during the year has necessitated a restructure and increase in capacity to address the additional workload. However, recruitment has been slower than planned resulting in a one-off employee saving of £209k (£225k in total for the activity), which mitigates budget pressures elsewhere in the division.

35. The mobile alarm service continues to develop and expand its client base in conjunction with adult social care. This has given rise to additional expenditure of £95k during the year, including significant replacement and upgrading of alarm equipment and security measures which are essential for the safety of vulnerable residents.

36. The homelessness and housing options service ranks highly in preventing and managing homeless demand with a view to minimising the cost to the council. This is a demand-led area generating constant pressure on the budget, which shows a relatively modest variance of £123k for the year. The corollary of this preventative approach is reflected in a lower requirement for placements in bed and breakfast and private sector leased accommodation than would otherwise be the case, which are substantially more expensive and increasingly more difficult to procure given the impact of welfare benefit reforms and competing demand from other boroughs. This situation was anticipated during the budget planning process with reserves being earmarked as a contingency against exceptional demand/cost pressures. However, this contingency has not been required, with the temporary accommodation activity showing a positive outturn of £49k.

37. Corporate support recharges and cost reallocations between the HRA and general fund are as planned, but no legal costs have been incurred resulting in a positive variance of £104k in the strategic services activity overall. There were also positive outcomes within the maintenance and compliance and operations divisions (£110k), comprising traveller’s sites, property adaptations, stair-lift maintenance

and healthy homes, which contribute to the welfare and safety of residents across all tenure types. These variations are unlikely to recur in the current year.

Chief executive's department

38. The Chief Executive's department is reporting an outturn variance of £220k under budget for 2013/14 after net transfers of £2.017m to reserves. Most services in the department are reporting relatively small variances. The more significant underspends are £87k in Human Resources, which is due to higher than expected income on areas such as schools payroll, agency and occupational assessment, and £85k in Organisational Development, which is due to higher than budgeted levels of income from training. A shortfall of service charge income for non-residential properties has led to an overspend of £98k in Property Services but this is more than compensated for by planned underspends elsewhere in the Regeneration service.

39. The outturn also takes into account the 2013/14 base budget savings of £520k which have been fully achieved.

Finance and corporate services

40. Finance and corporate services is reporting a favourable variance against budget of £77k, against a revised budget of £18.9m.

41. As previously reported, 2013/14 has seen the department continue to review and restructure key service areas such as information technology, finance, legal and corporate facilities management to deliver the £3.8m efficiencies and savings identified in setting the budget.

42. The full year effect of a new contract for IT services together with the decision to purchase the council's head offices at Tooley Street thereby releasing the council from its liability for an annual rental payment have both made significant contributions to the department's savings target.

43. Where it was not possible to achieve savings as planned, the department was able to identify alternative options to ensure that overall the savings target was achieved.

44. The department also has responsibility for managing the costs of certain corporate initiatives, one of which is the council's accommodation strategy where costs are incurred in decommissioning buildings. These costs were fully funded through the release of earmarked reserves. Reserves were also used to fund some of the impact of re-organisation in terms of redundancy and retirement costs where these could not be contained.

Public health

45. From 1 April 2013 the council took on new responsibilities to improve the health of residents and reduce health inequalities in Southwark. These Public Heath activities are funded through a £21.8m ring fenced grant from the Department of Health. The director of public health fulfils a number of statutory duties including providing professional public health expertise to both Southwark and Lambeth boroughs, clinical commissioning groups and health and wellbeing boards.

46. Public health activities are delivered through children's and adults' services and environment and leisure departments with the vast majority of expenditure on third party service providers. There is a budget pressure emerging in sexual health services, which was mitigated in 2013/14 with one-off favourable variances in other areas of the public health service.

47. A budget of £3.1m within the chief executive's department covers both the staffing costs for the shared specialist public heath team and a contingency to mitigate financial risks associated with activity/costs for public health. A favourable variance against the staffing budget of £180k was achieved in 2013/14 as the public health team built up to full capacity. In 2013/14 the contingency was not fully utilised and so this, along with other favourable public health budget variances, have been transferred to an earmarked reserve for use in future years.

Contingency

48. The 2013/14 budget included £5m for contingency, held to meet unforeseen costs that may arise during the year within departments that strategic directors are unable to contain. At outturn no significant pressures have been identified that will require a call against this contingency. Therefore all of the total £5m has been set moved to reserves. As previously reported this will be used to meet the current assumption that in 2014/15 a £6.2m contribution from reserves will be required to support the general fund budget.

Capital

49. For accounting and control purposes, where it is proposed that reserves are released to meet capital expenditure, they are at first released into revenue and a direct contribution from revenue is then made to capital. When this occurs cabinet is asked to approve or note these contributions in Appendix A.

Housing revenue account (HRA)

50. The table below sets out the revenue outturn for the HRA. The underlying budget position is positive, but distorted by the inclusion of one-off/ non-routine items, such as additional support for the investment programme and the early redemption of debt requiring the draw-down of earmarked reserves.

Table 2: Housing Revenue Account outturn 2013/14

Services	**Net Expenditure**		
	Full Year Budget £'000	Full Year Outturn £'000	Full Year Variance £'000
Operations	-173,892	-174,069	-177
Maintenance & Compliance	46,646	47,294	648
Major Works	1,606	811	-795
Specialist Housing Services	-36,953	-42,848	-5,895
Strategic & Corporate Services	140,216	153,777	13,561
Customer Experience	2,873	2,276	-598
Community Engagement	2,129	1,628	-501
Chief Executives	1,173	1,191	18
Direct Revenue Funding of Capital	12,727	18,227	5,500

Services	Net Expenditure		
	Full Year Budget £'000	Full Year Outturn £'000	Full Year Variance £'000
Appropriations to/(from) Reserves	3,475	-8,287	-11,762
Total	**0**	**0**	**0**

51. The need to spend on landlord responsibilities for the maintenance and improvement of the housing stock remains constant and despite the greater value for money being achieved through better procurement and more robust contract management, there remains underlying spending pressure across the repairs activity, comprising reactive repairs, planned maintenance, mechanical and electrical engineering and heating plant repairs/renewals. Disrepair remains a persistent problem and consumes a disproportionate amount of resources. Whilst good progress is being made, it remains a high priority for management. Additional one-off resources of £2m have been committed to the repairs service from the major projects budget to meet specific pressures such as asbestos removal, planned preventative maintenance and capital works (in excess of £10k) that fall outside the Warm, Dry Safe (WDS) programme and a limited programme of kitchen and bathroom renewals.

52. Southwark building services (SBS) – operational and strategic management of the service sits within the M&C division. Restructuring and reconfiguration of the workforce has contributed to improved performance, but there remains scope to modernise and deliver further improvement in efficiency, quality and productivity. The trading account shows an operating deficit of £400k which is subsumed within the HRA.

53. Major works division oversees the wider investment programme and manages delivery of major works programmes including WDS, fire risk assessment (FRA) and high investment need estates (HINE). The revenue budget mainly comprises employees and associated running costs and shows a negative outturn of £200k. In addition, the budget allocation for external decorations (which remained unapplied in-year) is carried forward in full to 2014/15 (£1m). Due to the sheer scale of the investment programme and volume of projects it has been necessary to increase capacity in the team, which has largely been charged to individual capital projects.

54. Operations division comprising front-line estate management and income collection/arrears management has returned a net saving of £0.2m overall (including rent income). Within this there are a number of 'overs' and 'unders', most notably the impact of adopting an enhanced voids specification which has contributed to a significant increase in tenant satisfaction and better take-up, albeit at higher cost (£500k). The longer-term impact of this policy initiative is being managed through reserves in the current year and will be addressed in the next budget round and aligned to the successor programme to WDS. Discounting the voids impact and rent income (which is addressed below), the underlying outturn offers further scope for efficiency savings going forward.

55. Tenant rents and service charges are critical to the sustainability of the HRA business plan and delivery of the council's landlord responsibilities. Overall, the debit raised (including sheltered, hostels and estate voids, but excluding non-residential stock) was 0.15% lower than budget (£400k against a full-year

budget of £233.6m), attributable to higher void loss. Consolidated collection performance was 99.16% which shows resilience despite the generally weak economic conditions and the impact of benefit reforms. This is an improvement over last year and the council continues to provide assistance to those in most need, not least through a top-up contribution from the HRA to the discretionary housing payment (DHP) fund, specifically for council tenants. Overall, net arrears rose by £700k year on year and bad debt provisions were reviewed and increased to reflect the upward arrears movement, but remained within the budget available.

56. The specialist housing services division comprises a diverse range of functions including home ownership, tenant management organisations (TMO), the commercial and garage portfolios and sheltered housing and temporary accommodation. There are positive budget movements in all activities across the division and the use of hostels and estate voids have been maximised during the year as a cost neutral means (within the HRA) of mitigating the cost of homelessness in the general fund.

57. Service charge costs associated with properties bought under the Right to Buy are fully recoverable from homeowners under the terms of their lease. Total billing of £27m (net) was raised in 2013/14 including prior-year account actualisations. The value of rechargeable capital works to homeowners is intrinsically linked to the housing investment programme and given the scale of investment and delivery of the WDS and FRA programmes over the last two years, is reflected in the enhanced level of billing (£11.4m), which far exceeds the base budget provision (£6.5m). The budget has been re-aligned in the current year to better reflect anticipated activity going forward and will continue to be reviewed as part of budget setting. In collection terms, performance has also exceeded expectations, with £28.7m collected (including service charge loans) against a target of £23.5m, and service charge arrears falling to £6.4m (net).

58. The strategic and corporate services activity accounts for over half of the gross HRA and comprises key budgets pertaining to departmental/corporate overheads, financing, RCCO, depreciation, arrears write-offs/provisions and major projects (the revenue impact of which falls outside the mainstream operational budgets due to their exceptional nature). Positive movements across these and other budget heads have enabled the early repayment of debt and supplementary contributions to support the investment programme.

59. A key priority in business planning terms is the repayment of debt as predicated in the self-financing settlement. Budgetary conditions have enabled two tranches of high interest rate debt (c. 9%+) totalling £80.1m to be repaid early in order to provide greater budget flexibility and increase HRA borrowing headroom. £35.8m has been financed through a combination of retained RTB receipts (debt element £3.1m), major repairs reserve (£12.7m) and the revenue account/earmarked reserves (£20m). The remainder (£44.3m) has been financed through internal borrowing, which will be repaid over the medium-term (between 5 to 8 years) from the revenue interest savings accruing to the HRA. This forms an integral part of the business plan going forward. Initial premia costs of £3.7m have been met from the revenue account in-year; the remainder will be amortised over the remaining term of the original loans and fully extinguished by 2015/16.

60. Under HRA self-financing, local authorities are required to adopt a component

based approach to calculate dwelling depreciation within 5 years, albeit transitional arrangements exist that permit use of the MRA based approach as determined in the debt settlement. A further requirement is to recognise non-dwelling impairment as a direct charge to the HRA immediately, whereas this had a neutral impact previously. For 2013/14, these changes have been managed within budget, but the depreciation budget will require realignment over the medium-term in anticipation of the change for real in 2016/17.

61. The heating account is a notional ring-fenced account within the HRA, comprising predominantly the energy costs (gas, electricity and oil) for the provision of district heating and hot water to council tenants and leaseholders. It is maintained on a trading account basis with any surplus/deficit being carried forward. Balances 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 have contributed to an extended period of zero increases in heating charges; these remain subject to annual review as part of budget setting process. For 2013/14 there is a net operating deficit of £177k which has been met from the heating account reserve.

62. The ring-fenced nature of the HRA requires that surpluses/deficits are carried forward between years. As at 31 March 2014 HRA earmarked reserves stand at £23.5m, following the in-year application of funds totalling £8.3m (net) to meet exceptional expenditure items incurred during the year. Reserves will be kept under periodic review and maintained at an appropriate level to mitigate future risks, fulfil future commitments already made and enable the transformation and modernisation of services going forward.

Implementation of the 2013/14 budget decisions including agreed budget reductions, savings and efficiencies

63. The council identified £31m budget reductions, including savings and efficiencies for the general fund and housing revenue accounts as part of the 2013/14 budgets. The final figures show that there is a projected savings shortfall of £1.1m, as shown in Table 3.

Table 3: Statement of achievement of savings agreed for 2013

Departments	**Budgeted 2013/14 savings** £'000	**Full year 2013/14 savings** £'000	**Compensating / other savings in 2013/14** £'000	**Variance** £'000
Children's and adults services	(15,390)	(14,290)	(1,100)	0
Environment and leisure	(2,675)	(2,675)		0
Housing services	(490)	(490)		0
Finance & corporate services	(3,767)	(3,767)		0
Chief Executive	(520)	(520)		0
Corporate	(2,000)	(2,000)		0
Total General Fund	**(24,842)**	**(23,742)**	**(1,100)**	**0**
HRA	(6,033)	(6,033)		0
Total Savings	**(30,875)**	**(29,775)**	**(1,100)**	**0**

Note: Details of the council savings plans can be found in the policy and resources report to Cabinet (12 February 2013)

64. In the table above, the compensating or other savings identified mean that the

total value of savings agreed by the council in setting the 2013/14 budget have been achieved.

65. Both the Adults' Services and Education Services adverse variances on savings are offset against compensating favourable variances within these services. As previously reported, there is an adverse variance for the Adults' Services savings expected from the service redesign of arrangements the adult social care role within mental health of £700k and a delay in the Education Services restructure of specialist educational services resulting in £400k adverse variance

Reserves

66. As previously reported, 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 fund
   - 'invest to save' opportunities, which form part of the modernisation agenda and are expected to deliver future ongoing revenue savings
   - investment in regeneration and development where spend may be subject to unpredictable market and other factors.
   - exceptional items/pressures which are difficult to predict and which are not included in revenue budgets or within the capital programme.

67. Where a department identifies a need for additional funding there is a robust process for seeking support from reserves. The department must demonstrate that they are unable to contain the identified additional pressure within their existing budget. Cabinet will be asked to approve this funding support where the amount is £250k or above.

68. The budget approved by council for 2013/14 included a planned release of reserve of £6.3m. This call on reserves provided some flexibility in terms of budget setting and the profile of savings that the council identified in the Policy and Resources Strategy 2011-14. As stated in paragraph 48, the 2013/14 budget contained a contingency fund of £5.0m, which did not need to be used and therefore has been put into the financial risk reserve to help fund the 2013/14 £6.2m planned release of reserve necessary to balance the 2013/14 budget. This call on reserves has been made in full.

69. Reserves balances are also held to fund future capital projects. In 2013/14, £6.7m was drawn down to fund capital, this included expenditure related to schools, regeneration and customer services development.

70. There has been a drawdown from reserves of £2.2m for technical accounting purposes related to rental smoothing adjustments for Queens Road and more significantly in relation to smoothing of the waste PFI unitary charge over the 25 year life cycle of the project.

71. Excluding the technical, schools balances and budgeted contribution to reserves, there has been a net contribution to reserves in 2013/14 of £15.7m to support general fund services in future years.

72. The movements in general fund earmarked reserves are reflected in Appendix B and subject to existing approval arrangements.

73. The favourable general fund outturn variance of £103k on services has been set aside in the modernisation fund.

74. In line with the medium term resources strategy (MTRS), the council continues to maintain appropriate earmarked reserves, in order to mitigate future risks, fulfil future commitments already made and provide resources to enable services to transform over time.

Table 4: Summary of earmarked reserves

Summary of earmarked reserves	Balance as at 31 March 2013 £'000	Net movement in reserves £'000	Balance as at 31 March 2014 £'000
Corporate projects and priorities	11,029	190	11,219
Service reviews and improvements	19,257	10,559	29,816
Capital programme and other capital investment	32,249	(351)	31,898
Strategic financing, technical liabilities and future financial risks	36,304	1,481	37,785
Total	**98,839**	**11,879**	**110,718**

75. 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.

76. Service reviews and improvements represent resources held that can be directly linked to services provided.

77. Modernisation reserves are held to help the council fulfil its longer term plans in relation to its modernisation, development and improvement agenda.

78. 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.

79. 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 above.

Business rates retention scheme

80. As reported previously the localisation of business rates represents a change to the funding regime for local authorities for 2013/14 and beyond. Under this new funding regime actual retained business rates income will be dependent on the

assessed rateable values, effect of appeals and collection rates within the borough.

81. As with any change of this significance there has been uncertainty over the operation of the scheme. This presents significant risk to the council but also some opportunity in the event of an increase in business rate yield that surpasses government targets. Any uncollected business rates, or unfavourable variation from government estimates of rateable values, will impact directly on council resource available and therefore on resources available to fund and to provide services.

82. The business rates retention scheme includes a safety net at 7.5% to protect local authorities from significant reductions in collectable rates. This means that shortfalls from 0.1% to 7.5% will not be protected and will have to be borne by the council.

Collection fund monitor

83. 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 surplus at quarter three was £1.789m, with the council's share being £1.327m.

84. The collection fund monitor covers both council tax and business rate collection. Table 5 below summarises the outturn account balances for both as at 31 March 2014.

Table 5: Collection fund account

Collection Fund Account	**Outturn balance as at 31/03/2014** (surplus)/deficit **£'000**	**Southwark share** **£'000**	**Comments**
Council Tax	(3,545)	(2,666)	75.3% Southwark: 24.7% GLA
Business Rates (NNDR)	36,294	10,888	30% LBS; 20% GLA: 50%CLG
Business Rate Supplements (BRS)	0	0	100% GLA
	31,749	**8,222**	

Council tax

85. Council tax cash collection continues to perform well when compared to the same period last year. While the 10% reduction in central government support for the council tax reduction scheme has increased the amount of council tax to be collected by £2.8m, the council has been able to meet its collection fund target for the year by actively pursuing non payers of council tax and is working proactively to assist customers in genuine need of support.

86. The council tax account outturn position is a surplus of £3.5m, of which the council's share is £2.7m. As reported previously this is mainly because the council tax collectable has increased compared to the estimate when the council tax was set in January 2013, while at the same time collection performance has been maintained at a level above the previous year. Therefore, income due has increased whilst reducing the cost for bad debt provision.

87. The surplus position has increased by £1.8m from the forecast at quarter 3 because the level of bad debt provision decreased considerably due to clearing the backlogs for write-offs, and the exemptions and discounts applied were at a lower level than anticipated at quarter 3.

Business rates

88. The collection rate for business rates is being tracked closely. Previous years' collection and trends are modelled together with intelligence on changes to the net collectable amount through new builds and deletions. Socio economic factors are considered taking into account national issues such as businesses hit by the recession.

89. The council continues to meet with the valuation office agency on a regular basis to understand their approach to managing appeals, although limited information is forthcoming and delays are commonplace.

90. There are many factors that can affect the levels of collection and the council has sought specialist advice to help determine likely volumes of income from retained business rates. The complexities of projecting the year end position and future years budgetary income have been highlighted by the advisors who continue to work with us to determine reasonable estimates.

91. Part of the Financial Risk Reserve has been set aside to help protect the council from the risks inherent in the new funding system and especially risks underlying business rate retention.

92. The outturn position for the NNDR account is a deficit of £36.3m, and the council's share of this deficit (30%) is £10.9m. The main reason for the deficit is due to the need to provide for outstanding appeals of £38.9m. Of this £31.4m was due to outstanding cases which were inherited when the risks on business rate collection were transferred to the council from 1 April 2013.

93. The full impact of appeals on the outturn position was not reported at quarter 3 because of uncertainties about accounting treatment at the time of reporting and also because a reliable estimate could not be made. However, now with the help of external specialist and data from the valuation office the appeals provision represents the council's best estimate.

94. The DCLG has recognised that the appeals provision had a significant impact on the collection fund balances for 2013/14, and introduced a mitigation which allowed the council to spread the backdated appeals over five years. Therefore, the actual collection fund deficit balance for distribution is £11.2m, and the council's share of this deficit (30%) is £3.3m. This is £36.3m deficit balance less four-fifth (4/5) of the backdated appeals (£25.134m). It will not impact on the council's budget for 2013/14 or 2014/15, but will be accounted for as part of the NNDR base setting for 2015/16.

Business rate supplement

95. Along with other London boroughs, the council collects a business rate supplement (BRS) of 2p on non domestic properties with a rateable value over £55,000 which is to help pay for the Crossrail project. The BRS is collected on behalf of the GLA, for whom the council acts as a collecting agent. Because of this, the income collected and the associated costs of collection have no impact on the council's finances.

Treasury management

96. The council holds its cash in short term money market instruments diversified across major banks and building societies and in bonds and bills issued by the UK government or supranational entities. The investment priorities are capital preservation and liquidity and the investments themselves are managed by an in-house operation and two investment firms: Aberdeen Asset Managers and AllianceBernstein. Over the course of 2013/14 the sum invested averaged £240m (£293m 2012/13) and as at 31 March 2014 stood at £157m (£176m at 31/3/13). The balance with each counterparty and the maturity profile are set out in the tables below. Investments will be liquidated as needed to meet spending over the course of 2014/15.

INVESTMENT COUNTERPARTY AND RATINGS 31 MARCH 2014									
EXPOSURE £m	Fund				Ratings				
COUNTERPARTY	Aberdeen	Alliance Bernstein	In-house	Total £m	Long	Short	Sup-port	Sovereign	Sove-reign Rating
COMMONW BANK AUSTRALIA			15.00	15.00	AA-	F1+	1	AUSTRALIA	AAA
TORONTO DOMINION		2.00		2.00	AA-	F1+	1	CANADA	AAA
NORDEA BANK FINLAND	3.50			3.50	AA-	F1+	1	FINLAND	AAA
BANQUE NAT DE PARIS	3.50	2.00		5.50	A+	F1	1	FRANCE	AA+
CREDIT INDUST ET COMRCL	3.50			3.50	A+	F1	1	FRANCE	AA+
SOCIETE GENERALE	3.50	1.00		4.50	A	F1	1	FRANCE	AA+
DEUTSCHE BANK		3.00		3.00	A+	F1+	1	GERMANY	AAA
GLOBAL TREAS FUNDS-MMF			0.10	0.10		AAA			
ABN AMRO BANK	3.50	2.00		5.50	A+	F1+	1	NETHERLANDS	AAA
ING BANK	3.40	2.00		5.40	A+	F1+	1	NETHERLANDS	AAA
RABOBANK		2.00		2.00	AA-	F1+	1	NETHERLANDS	AAA
DNB BANK	3.50			3.50	A+	F1	1	NORWAY	AAA
EUROPEAN INV BANK	7.00	6.50		13.50	AAA	F1+		SUPRANATIONAL	AAA
INT BANK RECONST DEVT	3.50	6.80		10.30	AAA	F1+		SUPRANATIONAL	AAA
SKANDINAVISKA	3.50	2.00		5.50	A+	F1	1	SWEDEN	AAA
SVENSKA	3.30			3.30	AA-	F1+	1	SWEDEN	AAA
CREDIT SUISSE	3.50	2.00		5.50	A	F1	1	SWITZERLAND	AAA
BARCLAYS BANK	2.00			2.00	A	F1	1	UK	AA+
LLOYDS BANK			15.00	15.00	A	F1	1	UK	AA+
NATIONWIDE BSOC	3.30		10.10	13.40	A	F1	1	UK	AA+
RBS/NATWEST			15.80	15.80	A	F1	1	UK	AA+
UK TREASURY		19.20		19.20	AA+	F1+	0	UK	AA+
BNY MELLON	0.10	0.10		0.20	AA-	F1+	1	US	AAA
Total £m	50.60	50.60	56.00	157.20					

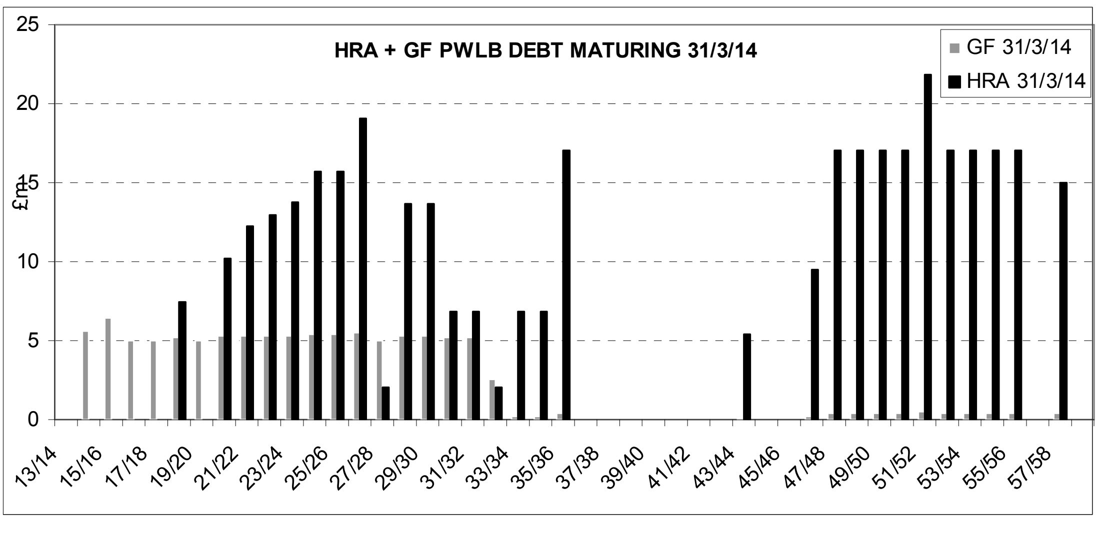
INVESTMENT MATURITY PROFILE AND RATING 31 March 2014				
Year Band	A	AA	AAA	Total
Up to 1 Year	56%	24%	5%	85%
1-2 Years			6%	6%
2-5Years		5%	4%	9%
Total £m	56%	29%	15%	100%

Rating	Definition
AAA	Highest credit quality
AA	Very high credit quality
A	High credit quality
F1	Highest short term credit quality; strongest capacity for timely payment (+donates exceptionally strong credit feature)
1	Extremely high probability of support, if it were needed
Ratings issued by Fitch or equivalent	

97. The return for 2013/14 was 0.65% (0.89% 2012/13) and reflects the stimulatory monetary policies which central banks here and abroad still have in place. UK base rates remained at 0.50%, throughout the year, which is where they have been since 2009.

98. The balance outstanding on loans taken from the Public Works Loans Board (PWLB, the local authority lending arm of the government) to fund past capital spend at the close of 2013/14 was £475m, of which £371m is HRA and £104m is General Fund. No new loans were taken in the year. £5m in General Fund debt matured and was financed out of minimum revenue provisions. The HRA also addressed the expensive debt that was passed to the council under self-financing by paying off £80m high rate HRA loans due to mature in 2014/15 and 2015/16 in the quarter to March 2014 with a premium of £10m. The annual interest on the £80m debt was £7.5m (average rate 9.31%). It will no longer be payable to the PWLB, but instead be applied to finance the principal and premium. This, together with the £36m HRA debt financing contribution plus £4m towards premiums in 2013/14, will fully finance the debt repayment over a number of years, raising the head room for future renewal and investment in housing.

99. The average rate of interest on the debt following the repayments is 5.97% HRA and 3.58% General Fund. The maturity profile of the £475m balance outstanding at 31/3/14 is set out in the chart below. £6m General Fund debt falls due in 2014/15 and, as in 2013/14, can be met out of annual minimum revenue provisions. No HRA debt falls due in 2014/15, but the HRA will continue to finance the £44m balance (£80m less £36m) remaining on its debt repayment out of interest saved until it is fully financed.



Municipal Bond Agency

100. The dominant source of loans to local authorities for capital investment is the PWLB. Its rates are determined by the government, which currently requires it to add a margin of 0.80% above gilts (the cost of the government's own borrowing) when lending to councils across the country, though limited funds are available at a lower margin to councils outside London on certain schemes developed in conjunction with Local Enterprise Partnerships. In the past, the margin for most councils has been as high as 1.00% above gilts and despite the drop to 0.80%, it is still higher than some other sources of finance.

101. For some time now, the Local Government Association (LGA) has been working on updating proposals for a Municipal Bond Agency, with a view to it becoming an attractive alternative to the PWLB and at the same time a better investment proposition for long term bond investors in the Agency. The LGA now proposes, in its revised business case, that local authorities borrowing from the Agency would give a joint and several guarantee of each other's borrowing and that borrowers would give up between 3 and 5 percent of loans taken as risk capital to absorb any borrower defaults. Local authorities are already regarded as safe borrowers on account of the legal protection that debtors have under Section 13 of the Local Government Act 2003. This protection would apply to the Agency and in the unlikely event of a borrower defaulting, the Agency would pursue the defaulter before drawing on the joint and several guarantee. The guarantee and risk capital, taken together, however, represent significant credit enhancements and should, over the long run, lower the margin that funds are lent at closer to 0.60% above gilts. The Agency would also undertake a financial assessment of borrowers, providing additional assurance to financial markets as well as those providing guarantees.

102. The main risk to the Agency is the dominance of the PWLB. The current margin over gilts is a gain to the PWLB and it could easily be lowered if the government should decide that it is warranted.

103. The LGA is now moving its proposals for the Agency to the next stage and is asking interested councils to invest in it as shareholder in the Agency providing it with initial setup up cost and capital of up to £10m as it launches its first bond issue next year. A contribution of £200,000 would ensure that the council can participate in and have a positive influence in the development of the Agency. The investment would earn a return after five or so years should the Agency be successful. However, if unsuccessful, the whole sum, but no more, would be at risk. The return would be additional to savings from potentially cheaper Agency borrowing. Furthermore, a failure because the government decides to lower the PWLB margin would also result in cheaper borrowing and would easily make up for any loss on the initial investment.

104. The £200,000 would be regarded as a capital investment in accounting terms and is being included as a variation to the capital programme, an update on which is on the cabinet agenda of 22 July 2014. Local authorities are able to make such investments under Section 12 of the Local Government Act 2003 and general powers of competence in Section 1 of the Localism Act 2011.

Community impact statement

105. This report monitors expenditure on council services, compared to the planned

budget agreed in February 2013. Although this report has been judged to have nil or a very small impact on local people and communities, the projected expenditure it is reporting reflects plans designed to have an impact on local people and communities. Community impact was 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
2013/14 revenue monitoring: Quarter 3 report to Cabinet 18 March 2014	160 Tooley Street	Vernon Smith 020 7525 7355
Link: http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=4556&Ver=4		
2013/14 revenue monitoring: Quarter 2 report to Cabinet 19 November 2013	160 Tooley Street	Vernon Smith 020 7525 7355
Link: http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=4552&Ver=4		
Policy and Resources 2013/14 - 2015/16: cabinet 12 February 2013	160 Tooley Street	Vernon Smith 020 7525 7355
Link: http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=4251&Ver=4		

APPENDICES

No.	Title
Appendix A	Budget movements to be approved, £250k and above and movements to be noted.
Appendix B	Movements in reserves: extract from draft Statement of Accounts 2013/14.

AUDIT TRAIL

Cabinet member	Councillor Fiona Colley, Finance, Strategy and Performance	
Lead officer	Duncan Whitfield, Strategic Director of Finance and Corporate Services	
Report author	Jennifer Seeley, Deputy Finance Director	
Version	Final	
Dated	10 July 2014	
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	n/a	n/a
Cabinet Member	Yes	Yes
Date final report sent to constitutional team		10 July 2014