| Item No. 12. | Classification: Open | Date: 10 February 2015 | Meeting Name: Cabinet |
| --- | --- | --- | --- |
| **Report title:** | | Revenue Monitoring Report for Quarter 3, 2014/15, 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**

Last year council assembly agreed a balanced budget for this financial year which required the council to deliver almost £30m of savings in our annual revenue spending. As a cabinet it is our role to monitor the implementation of this agreed budget - this report covers the first three quarters of the financial year and provides forecasts of the expected spend for the year.

I'm pleased to report that as at the end of December we are on track overall to deliver those savings and stay within our budget across both the General Fund and the Housing Revenue Account. However, within that overall picture there are sizeable variations and risks which we must continue to monitor and manage. One of the most significant budget pressures is due to growing levels of homelessness and subsequent cost of providing temporary accommodation. Since the last quarter further action has been taken within the council to increase the supply of temporary accommodations and to reduce the time taken to reach permanent resolution of homelessness cases. However I am concerned that unlike last year the government has not allocated Southwark further Discretionary Housing Payment grant to help people struggling to pay their rent and at risk of homelessness.

There is good news on the income side of our finances where we currently estimate that we will benefit from £3.9m of additional council tax, although this is offset by an estimated deficit of £1m on business rates where our in-year collection is in surplus, but we must make provisions for a significant backlog of NNDR appeals awaiting determination by the Valuation Office Agency. The combined collection fund surplus of £2.9m has been built into funding available for the 2015/16 budget.

**RECOMMENDATIONS**

1. That the cabinet notes:
   - the general fund outturn forecast for 2014/15 and forecast net movement in reserves by department;
   - the housing revenue account's (HRA) forecast outturn for 2014/15 and resulting forecast movement in reserves;
   - the treasury management activity for the first three quarters of 2014/15.

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

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

4. That cabinet approves the general fund budget movements that exceed £250,000, as shown in Appendix A.

5. That the cabinet notes the budget pressures of approximately £300k arising from demands on Discretionary Housing Payments (DHP) that exceed DWP funding allocations.

**BACKGROUND INFORMATION**

6. The purpose of this report is to provide a forecast for the end of the financial year 2014/15, using predictions based on the experience to date and knowledge as at the end of quarter three (December 2014). Work continues throughout the council to ensure that a balanced position is achieved by the end of the year.

7. The council agreed a balanced general fund budget of £308.2m on 26 February 2014 based on a nil council tax increase, and £6.2m use of reserves, giving a budget of £314.4m. This budget was set in the context of further significant overall cuts in government funding.

8. The council also approved budget decisions including reductions of some £25.9m within the general fund for 2014/15. Performance on achieving these savings is closely monitored and significant variances will be included in departmental narratives.

9. For the Housing Revenue Account, cabinet set tenants' rents and service charges on 28 January 2014. The budget included a £3.9m savings target for 2014/15.

**KEY ISSUES FOR CONSIDERATION**

**Current forecast position: General fund**

10. Table 1 below shows the current forecast outturn position for quarter three (as at 31 December 2014) by department. These estimates are based on nine months' experience and action by all strategic directors will continue to ensure that they deliver services within budget. Progress for each department is shown in paragraphs 15 to 41 below.

**Table 1: General fund forecast outturn position for 2014/15 as at Q3**

| General fund | Original budget £'000 | Budget movements £'000 | Revised budget £'000 | Forecast Spend in year £'000 | Reserve movements £'000 | Total use of resources £'000 | Variance £'000 |
|---|---|---|---|---|---|---|---|
| Children's and adults services | 203,079 | (6,960) | 196,119 | 199,509 | (3,145) | 196,364 | 245 |
| Environment and leisure | 72,063 | (1,235) | 70,828 | 71,611 | (1,753) | 69,858 | (970) |
| Housing and community services (inc DHP) | 36,519 | 1,536 | 38,055 | 40,325 | (145) | 40,180 | 2,125 |
| Chief executive's department | 18,396 | (2,273) | 16,123 | 16,234 | (691) | 15,543 | (580) |
| Finance and corporate services | 38,342 | (2,516) | 35,826 | 35,058 | 0 | 35,058 | (768) |
| Support cost recharges | (57,956) | 11,448 | (46,508) | (46,508) | 0 | (46,508) | 0 |

| General fund | Original budget<br><br>£'000 | Budget movements<br><br>£'000 | Revised budget<br><br>£'000 | Forecast Spend in year<br><br>£'000 | Reserve movements<br><br>£'000 | Total use of resources<br><br>£'000 | Variance<br><br>£'000 |
|---|---|---|---|---|---|---|---|
| Contingency | 4,000 | 0 | 4,000 | 4,000 | 0 | 4,000 | 0 |
| **Total general fund services** | **314,443** | **0** | **314,443** | **320,229** | **(5,734)** | **314,495** | **52** |

**Note:** Explanations of this quarter's budget movements are provided in Appendix A.

11. The forecast includes estimates 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.

12. As shown in Table 1, within services there is a forecast adverse variance of £52k based on the information available at the end of December. This takes account of expected net movements from reserves of £5.734m in relation to services.

13. Table 1 reflects budget movements to the end of quarter three. Appendix A details the quarter three movements for cabinet to approve or note as appropriate. Earlier budget movements were included in the quarter 1 and quarter 2 reports.

**Table 2: General Fund Q1, Q2, and Q3 forecast outturn positions for 2014/15**

| General fund | Quarter 1 Variance<br><br>£'000 | Quarter 2 Variance<br><br>£'000 | Quarter 3 Variance<br><br>£'000 | Movement from Q2<br><br>£'000 | Paragraph ref |
|---|---|---|---|---|---|
| Children's and adults services | 0 | 0 | 245 | 245 | 15 to 26 |
| Environment and leisure | 0 | (550) | (970) | (420) | 27 to 28 |
| Housing and community services | 848 | 1,807 | 2,825 | 318 | 29 to 32 |
| Chief executive's department | 0 | (303) | (580) | (277) | 33 to 37 |
| Finance and corporate services | (976) | (367) | (768) | (401) | 38 to 40 |
| Support cost recharges | 0 | 0 | 0 | 0 | n/a |
| Contingency | 0 | 0 | 0 | 0 | 44 to 45 |
| **Total general fund services** | **(128)** | **587** | **52** | **(535)** | |

14. Table 2 shows that the forecast has moved from a predicted overspend at Q2 to a forecast positive variance as at Q3. The total movement in the forecast is £835k. Explanations of changes in variance are contained in the paragraphs below.

### Children's and adults services

15. The total budget for Children's and Adults Services is £196.1m, including £4.1m for Non Recourse to Public Funds costs. The forecast out-turn, were NRPF excluded, would be a positive variance of £634k. This is after the reserve draw down of £3.145m in respect of one off transformation costs.

16. The main variances are favourable for adult services, excluding NRPF, of £663k and Education £121k.

17. Adverse variances include £150k for Strategy, Commissioning and Business Improvement, and the No Recourse service is forecasting a £879k overspend.

18. The departmental position inclusive of NRPF is a £245k overspend

**Children's Services**

19. Children's Social Care budget forecast out-turn position is a balanced budget after adjustments for reserves and excluding NRPF clients. The main pressure area historically has been Looked after Children placements, both residential and agency fostering. The costs here no longer appear to be rising. It is anticipated that further gains will be derived from the transformation of children social care and continued management action which will reduce the overall costs and therefore reduce future budget pressures

20. Education Services is projecting a favourable variance of £130k. Additional income from the standards service is higher than expected. Cost pressures arising in Special Educational Needs arising from the implementation of the Children's and Families Act are being offset by a significant one-off Dedicated School Grant contribution towards these costs and some DfE grant.

21. Strategy, Commissioning and Business Improvement are currently forecasting an adverse variance of £150k arising from the extension of the council plan free fruit provision to all primary aged children from September 2014.

**No Recourse to Public Funds (NRPF)**

22. The current departmental budget for NRPF is £4.1m including the planned use of £1.8m from reserves. Despite this, an adverse variance of £879k is forecast, based on around 320 families currently being supported. The rate of increase has been mitigated by the management action implemented with more rigorous checks undertaken of new cases and existing ones being reassessed by officers including internal audit. As the NRPF budget includes the use of £1.8m of reserves, there is a potential 2015/16 spending pressure, unless more rigorous assessment and review processes are introduced.

**Adults' Services**

23. Adults Services forecast a budget favourable budget variance of £663k. This is due to contingencies arising from NHS transfers which are currently uncommitted as pressures are being managed through a series of modernisation initiatives. There are budget pressures in Learning Disability placements and Older People homecare costs. These are mitigated by underspends in Physical Disabilities Nursing. Adults' Services budgets are funding the part year impact of the implementation of the Ethical Care Charter associated with the re-tendering of the council's two main Home Care Contracts.

## Dedicated Schools Grant

24. The ring-fenced DSG budget is £193m, and the majority of this is delegated to schools. The remaining centrally held DSG is forecast to have a favourable variance of £2.5m, arising mainly on budgets for funding of high needs arrangements in schools and other providers.

25. A further favourable, but one year only, variance continues to be projected in regards to two year old place and trajectory funding as the eligibility for free 15 hours education for two years olds is extended from September 2014. This funding will be based on actual participation from April 2015. The Schools Forum have agreed to ring-fence this funding to be used in future years to continue to increase capacity and support the programme for two year old children.

## Savings

26. The Children's and Adults' savings targets are £4.4m and £6.9m for 2014/15. Children savings are currently forecast to be on track for delivery. Adults' savings are being forecast to slip by £2.1m due mainly to delays in starting Learning Disability and Older people redesign work. Work is continuing to obtain data from service teams to review and verify relevant activity.

## Environment and leisure

27. The department is currently forecasting an overall favourable variance of £970k for 2014/15, as a result of £800k surplus identified in the ring fenced parking account and £170k better than budgeted net income in public realm services. It is anticipated that the parking surplus can be transferred to the reserves account to support highways related works and any exceptional work to be carried out during severe weather conditions. Although there are a number of pressures in the department, these are being closely monitored and management actions will be taken to contain them within the existing budgets.

28. The department has already implemented most of the savings proposed for this financial year. Divisions will continue to seek improvements in business/operational processes in order to achieve cost reductions. These changes will be monitored to ensure service delivery meets expectations.

## Housing and community services (H&CS)

29. The quarter 3 forecast shows an adverse variance of £2.1m, before the planned drawdown of earmarked reserves to cover exceptional items.

30. The provision of temporary accommodation continues to present a significant budget risk for the council. Whilst Southwark is recognised as a leader in homeless prevention, it is simultaneously facing the challenge of increasing demand and restrictions on the supply-side, necessitating the use of more expensive bed and breakfast accommodation. Private sector leased accommodation is no longer financially viable for providers and the availability of estate voids, which has historically helped to ameliorate the impact, is reduced.

31. The council continues to pursue options to manage demand and up-scale supply as part of its budget planning for 2015/16 and beyond, but this is likely to

remain an enduring pressure over the medium-term. For 2014/15, the risk was anticipated with reserves being earmarked as contingency against the budget pressure and this will continue to be recognised going forward.

32. Bringing the customer service centre (CSC) back in-house has delivered budget reductions of £3.3m over the period 2013/14-2014/15. It has provided the opportunity to transform customer access and service delivery across the council but requires investment to modernise legacy systems and processes in order to reap the full financial benefit over the longer-term. The forecast comprises higher operating costs, with additional resources required in the short-term to address exceptionally high call volumes in recent months, together with infrastructure upgrades and transition costs that are not deemed to be a 'business as usual' cost and will be met from earmarked reserves (at around £450k). The underlying position on CSC remains broadly positive and moving forward, further cost savings have been assumed to be deliverable as services are re-configured/rationalised and the drive towards more cost effective transaction routes and customer access channels continues.

**Chief executive's department**

33. The chief executive's department is reporting a forecast outturn of £15.3m against an overall budget of £16.1m at quarter three, a full year favourable variance of £191k. The variance is mainly due to overachievement of income in Planning Division areas especially due to increased fees from planning applications.

34. This departmental budget takes into account the 2014/15 base budget savings of £1.4m for the department which have been incorporated into the budgets and are projected as fully achievable.

35. The department has earmarked reserves to fund some of the on-going schemes or programmes especially within the modernisation agenda in the department. As at the end of quarter three, the Children's Services training units within Organisational Development is expecting to draw between £389k and £412k from earmarked reserves to fund on-going schemes. There may be other drawdown from earmarked reserves as the forecasts are refined over the coming last months. Following these drawdowns the forecast outturn will be a favourable variance of at least £580k.

36. As described in the Q2 monitor, there are some on-going staffing restructures at various stages of consultation, the impact of which is currently not fully quantifiable but will be reported in the final out-turn monitor once the consultations are completed.

37. The revenue budgets continue to be closely monitored during the year to identify areas of potential savings and also address any emerging additional budget pressures.

**Finance and corporate services**

38. The finance and corporate services net revenue budget is £35.8m delivering corporate IT services, facilities management, revenues and benefits in addition to finance and legal services. The current expectation is that the department will succeed in meeting this target as a favourable variance of £768k is forecast

at quarter three. This is predominately due to the reduced cost of external audit fees.

39. The forecast is dependent on each of the divisions contributing to the delivery of £2m efficiency savings which are to be achieved through transformational reviews of each service area concentrating particularly on contract efficiencies, realignment of services, employee self serve and use of technology. At quarter three the expectation is that these savings will be delivered.

40. The council approved contingency budget is held within this department and, as in previous years, if it is not required to meet unplanned expenditure or loss of income it will be set aside in reserves to meet the future costs associated with the continued modernisation of council services. Any additional government funding that it was not possible to identify during the budget setting process will also be set aside in earmarked reserves.

**Public health**

41. Public Health includes support for individuals with drug and alcohol addictions, sexual health services, school nursing, health checks and a team that provide specialist public health advice and support. In 2013/14 there was a significant budget pressure resulting from increased numbers of residents accessing sexual health services; this has continued to grow in 2014/15 with forecast spend for sexual health services of £1.5m more than the previous year. This overspend is mitigated through the use of the Public Health contingency which is now fully committed to offset this pressure, resulting in an overall balanced budget.

**Strike Action 10 July 2014**

42. As a result of the strike action which took place on 10 July 2014, a total of £71.5k was held back from those employees who took strike action, which is calculated to be £53.6k for the general fund and £17.9k for the HRA.

43. As this was an unplanned saving in year, cabinet are asked to provide guidance as to the most beneficial way to use this windfall for the benefit of the residents of Southwark.

**Contingency**

44. The 2014/15 budget includes £4m for contingency, held to meet unforeseen costs that may arise during the year within departments that strategic directors are unable to contain. At quarter three no significant pressures have been identified that will require a call against this contingency. However if it remains unused, it will be transferred to reserves and used to support the 2015/16 budget.

45. One of the most significant financial risks the council faces is homelessness and the upward cost pressure of temporary accommodation provision, particularly bed and breakfast. Southwark is recognised as a leader in homelessness prevention, but it is simultaneously facing challenges through rising demand and a reduction in the availability of accommodation. Hostels and estate voids in the HRA provide more financially neutral forms of temporary accommodation and these are utilised wherever possible to ameliorate the impact on the general fund. Additionally, measures are being taken to better

manage demand, up-scale supply and discharge our statutory responsibilities through the private sector and registered providers.

**Discretionary Housing Payment (DHP)**

46. Previous quarterly monitors have identified the council's contributions to DHP for those individuals who have been impacted by changes in the welfare regulations in the social rented housing sector. DHP are made on the basis of grant allocated to the council by the Department for Work and Pensions (DWP). In 2013/14 this grant was approximately £2.2m. This followed a number of supplementary grant allocations made following applications by the council. The grant for 2014/15 is £1.2m, therefore substantially less than in 2013/14. This grant is allocated to individuals on the basis of set criteria designed by the council to ameliorate the hardship and encourage people to take steps to address their position.

47. Current forecasts suggest that a total budget pressure of around £300k exists for 2014/15. In the event of supplementary funding from DWP not being forthcoming, this pressure will need to be addressed by other council resources to be identified from both the general fund and HRA.

48. In the meantime, the council continues to make representations to DWP to address this shortfall.

**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 will be asked to approve or note these contributions in Appendix A. At quarter three no proposals have been made.

**Housing revenue account (HRA)**

50. Overall the HRA is predicting to move £416k more to reserves at the end of the year than budget. The forecast is given in more detail in Table 3. The quarter 3 forecast contains a number of known and anticipated budget movements giving rise to a net increase in the expected reserve contribution. However, the outturn forecast should be viewed with a degree of caution given the size, complexity and demand-led nature of the service.

**Table 3: HRA forecast outturn position for 2014/15 as at Quarter Three**

| Housing Revenue Account | Full Year Budget £'000 | Forecast Outturn £'000 | Forecast Variance £'000 |
|---|---|---|---|
| Operations | (173,051) | (173,295) | (244) |
| Maintenance & Compliance | 48,536 | 50,648 | 2,112 |
| Major Works | 2,150 | 2,303 | 152 |
| Specialist Housing Services | (24,849) | (25,839) | (991) |
| Strategic & Corporate Services | 126,073 | 124,768 | (1,305) |
| Customer Experience | 1,965 | 1,964 | (1) |
| Community Engagement | 2,097 | 2,005 | (92) |
| Regeneration Initiatives | 601 | 553 | (47) |

| Housing Revenue Account | Full Year Budget<br><br>£'000 | Forecast Outturn<br><br>£'000 | Forecast Variance<br><br>£'000 |
|---|---|---|---|
| Direct Revenue Funding of Capital | 15,002 | 15,002 | 0 |
| Appropriations to /(from) Reserves | 1,475 | 1,891 | 416 |
| | | | |
| **Total HRA** | **0** | **0** | **0** |

51. Robust contract management continues to deliver greater value for money to mitigate landlord cost pressures and £27.6m of efficiency savings have been delivered over the medium-term to meet these pressures and augment investment in the stock. The adoption of a higher voids standard is to be welcomed and has contributed to an increase in resident satisfaction but requires greater investment upfront and impacts on void turnaround times and the lettable rent debit. A limited programme of kitchens and bathrooms, together with operational and volume driven pressures within Southwark Building Services (SBS) contribute to a combined variation of £2.1m. This is subject to continuous review but presents minimal risk and will be contained within HRA resources overall.

52. Operations division is reporting an underlying positive variance of £200k comprising a range of budget movements across the operational estate, some of which flow through as efficiency savings for 2015/16. However, it excludes exceptional costs arising in the estate cleaning and grounds maintenance contract, resulting from changes in employee terms and conditions, including London Living Wage and pensions auto-enrolment. This will be contained in the current year, but base budgets will be uplifted to absorb the impact of these changes for 2015/16.

53. Under self-financing, income has assumed paramount importance for the sustainability of the HRA and delivery of landlord services to residents, particularly tenant rents and service charges. Mainstream residential rent debit continues to track fractionally higher than budget. In terms of rent collection, performance is 98.66% at week 39, which is below the budget target (100%), but above expectations, and shows resilience despite the generally weak economic conditions and impact of recent welfare reforms. Income performance has to some extent been mitigated through the use of Discretionary Housing Payments funding from the Department of Work and Pensions, which provides temporary financial assistance to tenants (both council and private) affected by welfare reforms.

54. Collection shows an improvement compared to the same point over previous years. Risks remain given the impending impact of the wider welfare reforms and uncertainty over government funding for discretionary housing payments beyond the current year, which could be detrimental to collection and arrears. Notwithstanding this, the HRA maintains adequate provisions to meet potential shortfalls of this nature in the event.

55. Homeowner service charges represent the second largest income stream to the HRA and are fully recoverable under the terms of their lease in order to prevent cross-subsidy from tenants. The value of rechargeable capital works is intrinsically linked to the housing investment programme, but is not linear. The scale of investment and delivery of the WDS, FRA and other programmes has accelerated rapidly in recent years, which was reflected in higher billing in

2013/14, and will be repeated in the current year. The forecast is currently shown as neutral, but will be revised once the billing run has been finalised. Collection currently stands at £27.1m (including service charge loans), which would suggest a full-year figure of around £36.1m against a target of £30m.

56. Besides home ownership, the Specialist Housing Services division comprises a diverse range of functions including, tenant management (TMO), the commercial and garage portfolios and sheltered housing and temporary accommodation. Hostels and estate voids are used wherever possible, as a cost neutral means (within the HRA) of mitigating the significant budget pressure in the general fund from temporary accommodation.

57. The strategic and corporate services activity accounts for over half of the gross HRA and comprises key budgets pertaining to departmental/corporate overheads, financing, depreciation, arrears write-offs/provisions and major regeneration projects. The revenue impact of regeneration projects falls outside the mainstream operational budgets due to their exceptional nature. It also contains the district heating account which is ring-fenced within the HRA and any surpluses/deficits are applied to the heating reserve, which ameliorates potential increases in heating charges. A lower requirement to provide for bad debts (as rent income performance exceeds expectations), together with contingencies and lower financing costs following the early redemption of debt, provides sufficient resources to meet the additional investment in maintenance and compliance.

58. The ring-fenced nature of the HRA requires that deficits or surpluses are carried forward between years. Earmarked reserves of £23.5m were brought forward, following the application of funds during 2013/14 to meet exceptional expenditure items (primarily the repayment of housing debt). In line with the medium-term resource strategy (MTRS), the level of reserves will be kept under 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. An estimated £1.9m will be contributed in the current year, based on the current outturn forecast.

**Reserves**

59. 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.

60. As the year progresses, departments will naturally be better placed to more accurately forecast their outturn position. Any unfavourable variances will be offset by favourable ones at departmental level before the need to call on reserves.

61. 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, or provide evidence of prior agreement that the expenditure will be met from reserves.

62. A total of £5.345m has been drawn down from reserves to date during 2014/15, as follows

| Department | Reason for movement | Amount £'000 | Dept total £'000 |
|---|---|---|---|
| Chief Executives | Funding of colleague engagement strategy campaign from HR transformation reserve. | 50 | |
| Chief Executives | Funding of annual fireworks display from regeneration and development reserve. | 62 | |
| Chief Executives | Drawdown from the South East London Housing Partnership (SELHP) reserve to fund redundancies arising from the ending of Southwark's hosting of the SELHP on 31 March 2014. | 48 | |
| Chief Executives | Purchase of 60 – 62 Hopton Street, drawdown of reserve set up in 2013/14 | 142 | |
| Chief Executives | Departmental total | | 302 |
| Children's and Adults | Release of funds from DSG reserve Under the new school funding arrangements, this funding has been allocated to schools by a one-off increase to their 2014/15 lump sum allocation | 1,305 | |
| Children's and Adults | Transfer from social care demand pressures reserve to support 2014/15 budgets | 1,840 | |
| Children's and Adults | Departmental total | | 3,145 |
| Environment and Leisure | Funding of additional night time cleaning and bulky waste pilot from regeneration and development reserve. | 145 | |
| Environment and Leisure | Technical release of reserve related to the smoothing of costs over the life cycle of the waste PFI project | 1,608 | |
| Environment and Leisure | Departmental total | | 1,753 |
| Housing and Community Services | Release of community council unused budget from 2014/15. | 11 | |
| Housing and | Release of cleaner greener safer | 134 | |

| Department | Reason for movement | Amount £'000 | Dept total £'000 |
|---|---|---|---|
| Community Services | unused budget from 2014/15. | | |
| Housing and Community Services | Departmental total | | 145 |
| **Total** | | | **5,345** |

63. Additional planned contributions to and from reserves, and included in departmental outturn figures in this monitor are as follows

| Department | Reason for movement | £'000 |
|---|---|---|
| Chief Executives | To fund ongoing schemes in children's services training | 389 |
| **Total use of reserves** | | **5,734** |

64. This gives a total net movement from reserves in 2014/15 of £5.734m.

65. Cabinet will be asked to approve this funding support where the amount is £250k or above, all of the above are included within Appendix A.

66. The budget approved by council for 2014/15 included a planned release of reserve of £6.2m. This call on reserves provided some flexibility in terms of budget setting and the savings that the council identified in the Policy and Resources Strategy 2014-17. It is currently assumed that this call on reserves will have to be made in full.

**Business rates retention scheme**

67. As reported previously the localisation of business rates represented 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.

68. 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.

69. 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**

70. The collection fund covers both council tax and business rate collection.

**Council Tax**

71. Council tax cash collection continues to perform well when compared to the same period last year. Although, the council's policy on discounts and exemptions has increased the amount of council tax to be collected, the council still expects to meet its collection target for the year. The service is actively pursuing non payers of council tax and is working proactively to assist customers in genuine need of support.

72. The council tax account is estimated to make a surplus of £5.184m, and the council's share is £3.904m. This is mainly because the council tax collectable has increased compared to the estimate when the council tax was set in January, and at the same time the 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.

**Business rates**

73. 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.

74. 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.

75. 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.

76. 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.

77. It is not uncommon, that when a new property is valued by the valuation office, the owners appeal against the valuation. This is then referred back to the valuation office for review. While the review is being undertaken, the owner pays business rates based on the original valuation. If the appeal is upheld, the valuation will be reduced, and bills / business rates income will be adjusted accordingly, back to the date of appeal.

78. Before 2013/14 the government held the responsibility for business rate appeals. The government managed the impact of these appeals by limiting the amount of NNDR redistributed to local authorities.

79. At the time of local authorities taking responsibility for business rates, they also inherited pre 2013/14 appeals, for Southwark this amounts to some £31.4m

(Southwark's 30% share being £9.4m), some of which dates back as far as 2005. No resources were given by the government to meet the reduced income if these appeals are upheld by the valuation office. The only concession given by the government was that local authorities would be able to spread the cost of these appeals over five years.

80. The affect of the appeals has an effect on the collection fund. At quarter three, the NNDR account is estimated to make an "in year" surplus of £5.184m, of which Southwark's share is £3.904m. This becomes a deficit of £3.338m in total, of which Southwark's share is £1.001m, after accounting for the impact of NNDR appeals and its backlog.

81. The increase in the in year surplus and reduction in the overall deficit position is because the value of the outstanding appeals has reduced, and as result less provision is required.

82. Southwark's share of the total surplus of £2.902m was included in the 2015/16 budget proposals in the report to 27 January Cabinet.

**Business Rate Supplement**

83. Along with other London boroughs, the council collects a business rate supplement (BRS) of 2p in the £ 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**

84. The council holds its cash in money market instruments diversified across major banks and building societies and in bonds and bills issued by the UK government or supranational entities (such as the European Investment Bank and the International Bank for Reconstruction and Development (the "World Bank"). 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 nine months to December the sum invested averaged £216m and as at 31 December 2014 stood at £166m. The balance with each counterparty and the maturity profile are set out in the tables below. Investments are liquidated as needed to meet spending.

| INVESTMENT COUNTERPARTY AND RATINGS - 31 DEC 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| EXPOSURE £m | FUND | | | | Ratings | | | | |
| COUNTERPARTY | Aberdeen | Alliance Bernstein | In-House | £m | Long | Short | Sup-port | Sovereign | Sovereign Rating |
| NORDEA BANK FINLAND | 6.50 | - | - | 6.50 | AA- | F1+ | 1 | FINLAND | AAA |
| CREDIT AGRIC CIB | 3.50 | - | - | 3.50 | A | F1 | 1 | FRANCE | AA |
| CREDIT INDUST ET COMRCL | 3.50 | - | - | 3.50 | A+ | F1 | 1 | FRANCE | AA |
| SOCGEN | - | 1.20 | - | 1.20 | A | F1 | 1 | FRANCE | AA |
| BANQUE NATIONAL DE PARIS | 3.50 | 2.00 | 5.00 | 10.50 | A+ | F1 | 1 | FRANCE | AA |
| DEUTSCHE BANK | - | 2.00 | - | 2.00 | A+ | F1+ | 1 | GERMANY | AAA |
| GOLDMAN SACHS MMF | - | - | 10.90 | 10.90 | Money | AAA | 0 | GLOBAL | Money Fund |
| BLACKROCK MMF | - | - | 8.30 | 8.30 | Money | AAA | 0 | GLOBAL | Money Fund |
| RABOBANK | 1.10 | 2.00 | - | 3.10 | AA- | F1+ | 1 | NETHERLANDS | AAA |
| ING BANK | 3.50 | 2.00 | - | 5.50 | A+ | F1+ | 1 | NETHERLANDS | AAA |
| ABN AMRO BANK | - | 1.00 | - | 1.00 | A+ | F1+ | 1 | NETHERLANDS | AAA |
| EUROPEAN INV BANK | 7.00 | 3.10 | - | 10.10 | AAA | F1+ | 0 | SUPRANATIONAL | AAA |
| INT BANK RECONST DEVT | - | 4.80 | - | 4.80 | AAA | F1+ | 0 | SUPRANATIONAL | AAA |
| SVENSKA | 3.30 | - | 15.00 | 18.30 | AA- | F1+ | 1 | SWEDEN | AAA |
| SKANDINAVISKA | - | 2.00 | - | 2.00 | A+ | F1 | 1 | SWEDEN | AAA |
| CREDIT SUISSE | 3.50 | 1.00 | - | 4.50 | A | F1 | 1 | SWITZERLAND | AAA |
| UBS | 3.50 | 2.00 | 15.00 | 20.50 | A | F1 | 1 | SWITZERLAND | AAA |
| NATIONWIDE BSOC | 3.30 | 2.00 | - | 5.30 | A | F1 | 1 | UK | AA+ |
| SANTANDER UK | 1.50 | - | - | 1.50 | A | F1 | 1 | UK | AA+ |
| UK TREASURY | - | 23.80 | - | 23.80 | AA+ | F1+ | 0 | UK | AA+ |
| BARCLAYS BANK | - | 2.00 | - | 2.00 | A | F1 | 1 | UK | AA+ |
| LLOYDS BANK | 3.50 | - | 10.10 | 13.60 | A | F1 | 1 | UK | AA+ |
| BNY MELLON | 0.20 | 0.10 | - | 0.30 | AA- | F1+ | 1 | US | AAA |
| BANK OF AMERICA | 3.5 | - | - | 3.50 | A | F1 | 1 | US | AAA |
| Total £m | 50.90 | 51.00 | 64.30 | 166.20 | | | | | |

Fitch Ratings or equivalent

| INVESTMENT MATURITY PROFILE AND LONG TERM RATING - 31 DEC 2014 | | | | |
|---|---|---|---|---|
| Yr Band | A | AA | AAA | Grand Total |
| Up to 1 Yr | 60% | 27% | 2% | 89% |
| 1-2 Yrs | | | 5% | 5% |
| 2-5 Yrs | | 4% | 2% | 6% |
| Grand Total £m | 60% | 31% | 9% | 100% |

| Rating | Definition |
|---|---|
| AAA | Highest credit quality |
| AA+/AA/AA- | Very high credit quality |
| A+/A/A- | High credit quality |
| F1+/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<br>(The UK government and its treasury bonds are rated AA+ by Fitch, Aa1 by Moody’s and AAA by Standard & Poor’s) | |

85. The part year return on investments in the nine months to December 2014 was 0.57%, reflecting the prudent strategy and the central bank liquidity still in place to support financial markets and growth following the 2007 financial crisis. Base rates have remained unchanged at 0.50% since 2009 and no rise is expected until the second half of 2015.

86. To ensure that the investment strategy remains up to date under current financial conditions, KPMG’s investment advisory unit were asked to carry out an independent review. Their findings confirm that the council’s current investment strategy remains prudent and fit for purpose. They suggest a number of updates to raise diversification, liquidity and potential returns at the margin and recognise that the scope to safely target higher returns under

current historically low credit spreads and low yields across various durations is limited. An updated strategy will be presented to council assembly for approval in February 2015.

87. 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 end of December 2014 stands at £470m (£99m General Fund and £371m HRA). £5.7m General Fund loans fall for repayment in 2014/15, of which £5.0m was paid off by December 2014. No HRA loans fall due until 2018.

**Community impact statement**

88. This report monitors expenditure on council services, compared to the planned budget agreed in February 2014. 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 |
|---|---|---|
| Policy and Resources 2014/15 to 2016/17: cabinet 27/01/14 | 160 Tooley Street<br>PO Box 64529<br>London<br>SE1P 5LX | John Braggins<br>020 7525 7489 |
| Link:<br>http://moderngov.southwark.gov.uk/documents/s43572/Report%20Policy%20and%20Resources%20Strategy%20201415%20to%20201617%20-%20Provisional%20Settlement.pdf | | |
| Revenue monitoring report for Quarter 1, 2014/15, including Treasury Management | 160 Tooley Street<br>PO Box 64529<br>London<br>SE1P 5LX | John Braggins<br>020 7525 7489 |
| Link:<br>http://moderngov.southwark.gov.uk/documents/s48481/Report%20Revenue%20Monitoring%20Report%20for%20Quarter%201%20201415%20including%20Treasury%20Management.pdf | | |
| Revenue monitoring report for Quarter 2, 2014/15, including Treasury Management | 160 Tooley Street<br>PO Box 64529<br>London<br>SE1P 5LX | John Braggins<br>020 7525 7489 |
| Link:<br>http://moderngov.southwark.gov.uk/documents/s49971/Report%20Q2%20Revenue%20Monitoring.pdf | | |

**APPENDICES**

| No. | Title |
|---|---|
| Appendix A | Budget movements to be approved, £250k and above and movements to be noted. |

**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** | 30 January 2015 | |
| **Key Decision?** | Yes | |
| **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** | | 30 January 2015 |