

<b>Item No.</b> 9.	<b>Classification:</b> Open	<b>Date:</b> 9 February 2016	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Revenue Monitoring Report for Quarter Three, 2015/16, including Treasury Management	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Councillor Fiona Colley, Finance, Modernisation and Performance	

## **FOREWORD – COUNCILLOR FIONA COLLEY, CABINET MEMBER FOR FINANCE, MODERNISATION AND PERFORMANCE**

The quarter 3 2015/16 revenue monitor report shows that three quarters of the way through the year we are largely on track to stay within our revenue budget agreed in February 2015 - delivering £30m of savings and supported by £6.2m planned use of reserves and our £4m contingency allowance.

I must however draw Cabinet Members' attention to the fact that spending for the year on temporary accommodation for homeless residents is estimated to be more than £2.3m over budget. Furthermore our expenditure supporting people with no recourse to public fund is also expected to be £2.3m above budget.

These overspends will mean that the £4m contingency built into the 2015/16 budget will be fully spent and underline the need to build these sustained demand-led budget pressures into the 2016/17 base budget.

## **RECOMMENDATIONS**

1. That cabinet notes that:
  - the general fund outturn forecast for 2015/16 and forecast net movement in reserves by department;
  - the current adverse variation of £2.308m for temporary accommodation and £2.290m for no recourse to public funds, and the potential call on the corporate contingency budget and on other reserves;
  - the continuing action required to manage the Public Health budget as a consequence of the confirmed in year reduction in grant;
  - the housing revenue account's (HRA) forecast outturn for 2015/16 and resulting forecast movement in reserves;
  - there has been no change in treasury management activity since the previous quarter.
2. That cabinet approves the general fund budget movements that exceed £250k, as shown in Appendix A.

## **BACKGROUND INFORMATION**

3. The purpose of this report is to provide a forecast for the end of the financial year 2015/16, using predictions based on the experience to date and knowledge as at

the end of quarter three (December 2015). Work continues throughout the council to ensure that a balanced position is achieved by the end of the financial year.

4. The council agreed a balanced general fund budget of £289.4m on 25 February 2015 based on a nil council tax increase, and £6.2m use of reserves, giving a budget of £283.2m. This budget was set in the context of further significant overall cuts in government funding.
5. The council also approved budget decisions including reductions of some £30m within general fund for 2015/16. Performance on achieving these savings is closely monitored and significant variances will be included in departmental narratives.

### Housing revenue account

6. On 27 January 2015, cabinet approved an increase in tenants' rents and service charges of 2.2% in line with government guidance at CPI +1%. In addition, £5.4m of efficiency savings and £5.5m of income measures were required in order to set a balanced budget for 2015/16, enabling the HRA to meet unavoidable budgetary commitments and increase revenue support for the housing investment programme (HIP,) to meet the investment needs of the existing stock and delivery of 11,000 new council homes.

### KEY ISSUES FOR CONSIDERATION

#### General fund overall position

7. Table 1 below shows the current forecast outturn position for quarter three (as at 31 December 2015) by department. These estimates are based on nine months' experience and action by all strategic directors will continue to ensure that they deliver their services within budget.

**Table 1: General fund outturn position for 2015/16**

General fund	Original budget	Budget movement	Revised budget	Forecast Spend in year	Variance before use of reserves	Forecast Net movement in reserves	Total use of resources	Variance after use of reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Children's and Adults	183,602	979	184,581	187,733	3,152	(3,152)	184,581	0
Environment and Leisure	67,481	1,535	69,016	70,416	1,400	(1,400)	69,016	0
Housing and Community Services	36,604	25,749	62,353	70,966	8,613	(3,983)	66,983	4,630
Chief Executive's Office	11,735	(6,869)	4,866	4,714	(152)	0	4,714	(152)
Finance and Corporate Services	32,474	(21,394)	11,080	(538)	(11,618)	11,782	11,244	164
Support cost recharges	(46,508)	0	(46,508)	(46,508)	0	0	(46,508)	0
Contingency	4,000	0	4,000	0	(4,000)	0	0	(4,000)
Total general fund services	289,388	0	289,388	286,783	(2,605)	3,247	290,030	642
Use of reserves to underwrite base budget	(6,163)	0	(6,163)	0	6,163	(6,163)	(6,163)	0
Net revenue budget	283,225	0	283,225	286,783	3,558	2,916	283,867	642

Note 1: Explanations of the prior quarter's budget movements are provided in Appendix A.

8. In total, there is a current forecast adverse variance for all services of £642k. Included in the table above are planned reserve movements totalling £7.048m.

### **Children's and adults' services**

9. The revised departmental budget for 2015/16 is now £184.5m. In this quarter, Adult Education, Community Safety and the Client Affairs Team have transferred to the department and the book start service has been transferred to Environment and Leisure. At the end of quarter three, the overall outturn position is projecting a balanced position after the planned use of earmarked reserves of approximately £3.1m
10. As in previous years, children social care budgets remain under significant pressure, despite having been protected from savings targets in previous years. Current options for budget savings being considered by cabinet, continue to recognise the need for this continued protection.
11. Despite the pressures, action continues to be taken by managers in both departments to bring spending for the year back to budget without compromising services being provided.
12. Dedicated schools grant remains in a balanced position for the year and any variations will be subject to agreement by the Schools Forum.

### **Environment and Leisure**

13. A balanced position is forecast on the revised departmental budget for 2015/16 of £69m after the net impact of planned contributions from earmarked reserves including planned PFI contributions.
14. The department has implemented all of the proposed savings for this financial year. Although the options related to the increase in environmental fees and charges were implemented in quarter three, the department is confident of achieving the overall savings target as any shortfall arising as a result of this, will be mitigated by other favourable variances within the department.

### **Housing and Modernisation**

15. This monitor represents the first forecast outturn report for the newly configured Housing and Modernisation department, following the corporate restructuring in autumn 2015, and comprises a number of additional functions that have moved between council departments, most notably corporate IT, corporate facilities management, human resources and organisational development / transformation with a consequent increase in base budget from £36.6m to £62.4m.
16. The position at quarter three shows an adverse variance of £4.6m which will become the first call on the corporate contingency (£4m) at the end of the financial year. Any variance above £4m will need to be resourced through other corporate and departmental reserves.
17. Temporary accommodation continues to present significant financial risk for the council, by virtue of homelessness demand and volatility on the supply-side, necessitating the use of more expensive bed and breakfast accommodation. Whilst robust management action is being taken to manage demand and

minimise cost through greater use of estate voids and hostels in the HRA, it remains an enduring challenge within the constraints of current legislation and council policy. The outturn is estimated to be £2.3m adverse, but continues to show gradual improvement over previous forecasts. Any final variation will become a call on corporate contingency in the current year. For 2016/17, cabinet are currently considering options for including these additional commitments with the Council's budget.

18. No Recourse to Public Funds (NRPF) is another demand driven area and remains a significant budget pressure that can no longer be contained within the service budget.
19. The NRPF caseload remains consistent at high levels, in spite of a thorough review of long standing cases and the introduction of a more rigorous assessment process. It is considered that management action is beginning to have an impact and expenditure in future years will be contained, albeit within a larger funding envelope being considered by cabinet separately as part of the Policy and Resources Strategy for 2016/17 and beyond.

### **Finance and Governance**

20. This is the first monitor report for the Finance and Governance department – this new team includes Exchequer Services, Professional Finance Services, Finance and Information Governance, the Director's Office and Law and Democracy. The Finance and Governance Department is forecasting a net unfavourable variance of £164k at quarter three. This consists of a number of favourable variances in respect of staffing costs as the voluntary redundancy scheme takes effect and restructuring plans are implemented. These benefits are offset by a number of other pressures and not least the under recovery of election costs from the Cabinet Office in respect of the General Election.
21. Management action continues to reduce any risks and to recover any income due to the Council.

### **Chief executive's department**

22. The Chief Executive's Department consists of the Regeneration and Planning divisions and the Chief Executive's Office, which includes Strategy and Planning, the Cabinet Office and Communications. A favourable variance of £152k is being forecast for the department at quarter three.
23. There are no significant variations to report.

### **Public health**

24. The position remains unchanged since quarter two with the impact of the in year cut in Public Health funding of £1.6m now confirmed.
25. Management action remains in place to attempt to contain costs although this remains difficult given the uncontrollable nature of sexual health pressures including demand management, current tariffs and other unavoidable needs of the service.

26. Any adverse variation at the end of the year after the use of earmarked Public Health reserves will need to be offset against the Public Health Grant for 2016/17.

### **Contingency**

27. The 2015/16 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 it has been identified that there remain significant pressures on the temporary accommodation and NRPF budgets totalling £4.6m.
28. While management action continues to contain these pressures, it is likely that contingency will be needed in full. Any additional pressure will become a call on other Council balances or on windfall savings for the year.

### **Voluntary Severance**

29. 2015/16 has seen the implementation of a voluntary redundancy scheme by the Council. This has been the first time in many years.
30. Costs of the scheme are to be contained within departmental budgets as staffing costs reduce as the redundancies occur. Any shortfall for a department will be met through allocations from the corporate modernisation reserve. This initiative will significantly support the changes across the Council to meet the budget challenges over future years.

### **Housing revenue account (HRA)**

31. This monitor represents the first forecast outturn report for the newly configured Housing and Modernisation department, following the corporate restructuring in autumn 2015. The forecast remains cautious at this point given the complexity and risk inherent in an HRA of this size. Indications are that the outturn will be broadly positive based on known and anticipated budget variations, allowing a higher than expected contribution to reserves. In summary, the key budget headlines are outlined below.
32. Efficiency savings of £33m have been delivered over the last five years to meet new and emerging budget pressures, to resource new council priorities and to augment investment in the stock. There remains a requirement to review service provision and continue to deliver efficiency savings regardless of the underlying budget position to optimise service delivery. Landlord services, particularly maintaining and repairing the housing stock consume the greatest proportion of resources and budgets remain under constant pressure. Robust contract management and control of high volume, high value contracts continue to deliver greater value for money. However, Southwark Building Services (SBS) are currently forecasting a deficit of £1.1m, which falls as a cost to the HRA as their primary client. Management of this service transferred to Environment and Leisure with effect from 1 October 2015 as part of the corporate restructuring with the aim to improve the trading performance and financial return to the council, over the medium term.
33. Under self-financing, income has assumed paramount importance for the sustainability of the HRA and delivery of landlord services, particularly tenant

rents and service charges. Mainstream residential rent debit continues to track to plan and rent collection performance is broadly on track at 98.81% at week 40 (which includes the Christmas period, when collection historically dips). Former tenant arrears collection, albeit small by comparison (c.£300k per annum), remains consistently above target. However, further welfare benefit changes announced in the summer budget (8 July 2015), and the commencement of the roll-out of universal credit direct payment (albeit in a limited pilot area initially), present additional risks which could impact on future collection performance. As part of prudent budget management, the HRA maintains a level of revenue provisions to meet potential income losses of this nature at all times.

34. 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 HIP, but is not linear. The scale of investment and delivery of the WDS, FRA and other works programmes have accelerated rapidly in recent years, which was reflected in higher billing last year and will be carried through to the current year. Collection performance continues to perform ahead of target (£28.4m achieved to the end of December including service charge loans), and extrapolated to year-end will exceed the annual target of £34.5m.
35. The ring-fenced nature of the HRA requires that deficits/surpluses are carried forward between years. For 2014/15 a surplus of £2.5m was contributed to reserves, which boosted the total held at year end to £25.9m. In line with the medium term resource strategy (MTRS), the level of reserves are 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 £2.1m (against a budget of £1.4m) will be contributed in the current year, based on the current outturn forecast.

### **Reserves**

36. 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.
37. Final allocations from council reserves will be reported in the final Revenue Outturn report for 2015/16 to be reviewed by cabinet later in the year.

### **Treasury management**

38. There have been no changes in Treasury Management since quarter two.
39. The Local Government Association's municipal bond agency is continuing preparations to launch its first bond issue this year and is expecting to lend on funds to borrowers at a slightly lower rate than the PWLB. The terms will be fixed when the first bond is issued and potential borrowers will assess the benefits from any savings in the rate against any joint and several guarantee or other

conditions the agency places. Any borrowing the council itself needs will be from whichever source is the cheapest having regard to any conditions.

### Community impact statement

40. This report monitors expenditure on council services, compared to the planned general fund budget agreed in February 2015, and HRA budget agreed in January 2015. Although as a monitoring report, this report has been judged to have nil or a very small impact on local people and communities, the 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 2015/16 to 2017/18: Cabinet 27/01/15	160 Tooley Street PO Box 64529 London SE1P 5LX	John Braggins 020 7525 7489
<b>Link:</b> <a href="http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&amp;MId=5143&amp;Ver=4">http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&amp;MId=5143&amp;Ver=4</a>		
Housing Revenue Account budget: Cabinet 27/01/15	160 Tooley Street PO Box 64529 London SE1P 5LX	Ian Young 020 7525 7849
<b>Link:</b> <a href="http://moderngov.southwark.gov.uk/documents/s51225/Report%20HRA%20Budget%202015-16.pdf">http://moderngov.southwark.gov.uk/documents/s51225/Report%20HRA%20Budget%202015-16.pdf</a>		
Revenue Monitoring Report for Quarter 1 2015/16, including Treasury Management	160 Tooley Street PO Box 64529 London SE1P 5LX	John Braggins 020 7525 7489
<b>Link:</b> <a href="http://moderngov.southwark.gov.uk/documents/s56455/Report%202015-16%20-%20Q1%20Monitor.pdf">http://moderngov.southwark.gov.uk/documents/s56455/Report%202015-16%20-%20Q1%20Monitor.pdf</a>		
Revenue Monitoring Report for Quarter 2 2015/16, including Treasury Management	160 Tooley Street PO Box 64529 London SE1P 5LX	John Braggins 020 7525 7489
<b>Link:</b> <a href="http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&amp;MId=5141&amp;Ver=4">http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&amp;MId=5141&amp;Ver=4</a>		

## APPENDICES

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

## AUDIT TRAIL

<b>Cabinet member</b>	Councillor Fiona Colley, Finance, Modernisation and Performance	
<b>Lead officer</b>	Duncan Whitfield, Strategic Director of Finance and Governance	
<b>Report author</b>	Jennifer Seeley, Director of Finance	
<b>Version</b>	Final	
<b>Dated</b>	1 February 2016	
<b>Key Decision?</b>	No	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments Included</b>
Director of Law and Democracy	No	No
Strategic Director of Finance and Governance	N/a	N/a
Cabinet Member	No	No
<b>Date final report sent to constitutional team</b>	1 February 2016	

## APPENDIX A

### Budget Movements

#### Interdepartmental movements to be approved for Quarter Three

Department From	Amount £	Department to	Amount £	Description of the budget movement
Finance and Governance	(19,559,962)			Net changes to departmental budgets following management restructure on 1 October 2015
Chief Executive's	(4,108,601)			
Environment and Leisure	(918,967)			
		Housing and Modernisation	23,507,701	
		Children's and Adult Services	1,079,829	

#### Movements in reserves to be approved for Quarter Three

Department From	Amount £	Department to	Amount £	Description of the budget movement
Finance and Governance	(606,051)	Appropriations	606,051	To fully fund the school scholarship sponsorship scheme until 2020/21
Appropriations	(405,000)	Housing and modernisation	405,000	Reserve contribution towards full year running costs of Queens Road 1 and 2, including end of rent free period.
Appropriations	(234,632)	Children's and Adult Services	234,632	Funding of budget shortfall on PFI schools following the renegotiation of the PFI contract
Appropriations	(698,000)	Housing and modernisation	698,000	Contribution of reserves to fund initial budget shortfall following the adoption of a standardised planned maintenance approach across the operational estate.
Finance and Governance	(7,433,259)	Appropriations	7,433,259	To increase capital reserves from Walworth Town Hall insurance receipts .
Appropriations	(800,000)	Direct revenue funding of capital	800,000	Reserve contribution towards the construction costs of Camberwell Library

**Movements in reserves to be noted for Quarter Three**

<b>Department From</b>	<b>Amount £</b>	<b>Department to</b>	<b>Amount £</b>	<b>Description of the budget movement</b>
Finance and Governance	(122,256)	Appropriations	(122,256)	Increase of Land Charges Reserve following receipt of Land Charges (Tinklers settlement) Grant
Appropriations	(100,000)	Direct revenue funding of capital	(100,000)	Southwark's contribution towards the cost of refurbishing 177-179 Walworth Rd as per lease agreement (SCU)