Item No. 15.	Classification: Open	Date: 1 November 2016	Meeting Name: Cabinet
Report title:		Revenue Monitoring Report incorporating Updated Medium Term Financial Strategy and Treasury Management 2016-17	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Fiona Colley, Finance, Modernisation and Performance	

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

The first budget monitoring report for 2016-17 indicates that the general fund for the year is on target but with two significant adverse variations. The first is further pressures on the No Recourse to Public Funds budget, over and above the additional budget agreed at council assembly in February. This pressure, while under control, remains upward as demands increase on the service. We will continue to make representations to the Home Office to encourage them to manage the unsustainable backlog of cases under their control and where appropriate, allow access of those impacted to the benefits system.

The second and more significant pressures relate to a range of social care budgets that are facing the need to achieve large budget savings over the next three years while forging closer working with the CCG and the NHS, and dealing with an ever ageing population and increasing complexity of caseload. Management actions are already in place to attempt to recover the position by the end of the financial year, although there may still be some slippage into 2017-18 and beyond. The pressures reflect a continuation of those experienced in 2015-16. Any changes to the current budget plan will be considered by the cabinet in November and December, in advance of council assembly setting of the one year 2017-18 budget in February next year.

The position must also be considered alongside the continued loss of government funding of more than £116m over the last five years since austerity cuts arrived. Under these circumstances it is not surprising that delivering a balanced budget is becoming more and more challenging. We will continue to make prudent use of reserves and balances to fund one off projects such as the 2016-17 round of enhanced voluntary redundancy. However, we recognise that these funds are receding and we must ensure that we retain an adequate level to mitigate the financial risks as we move forward.

It is encouraging that we are maintaining a balanced position on the Housing Revenue Account.

RECOMMENDATIONS

1. That the cabinet notes:

   - the general fund outturn forecast for 2016-17 of £8.619m after the utilisation of £9.342m reserves (table 1, paragraph 10)

   - the continuing pressures on the children's and adults' social care, public health and No Recourse to Public Funds budgets (paragraphs 11 - 24, paragraph 31)

   - the utilisation of the £4m contingency and £5m one-off windfall resulting from the early delivery of the minimum revenue provision saving to mitigate the full effect of cost pressures (paragraphs 36 and 37)

   - the housing revenue account forecast outturn for 2016-17 (table 2, paragraphs 40 to 45)

   - the treasury management activity in 2016-17 (paragraphs 60 - 69).

2. That the cabinet notes the implications of the current forecast for 2016-17 on future budget setting and the medium term financial strategy (paragraphs 54 - 57).

3. That the cabinet notes the revised financial remit for the three year planning period to 2019-20; the end of the current four year settlement term (table 3).

4. That the cabinet instruct officers to:

   - prepare proposals to balance the 2017-18 budget for consideration at December cabinet meeting (paragraph 57)

   - further propose options for 2018-19 to 2019-20, in the context of the cost uncertainty surrounding social care pressures, New Homes Bonus and arrangements for the Better Care Fund and the potential impact of welfare reform (paragraph 57).

BACKGROUND INFORMATION

5. The purpose of this report is to provide a forecast for the end of the financial year 2016-17, using predictions based on the experience to date, and to use this to inform the policy and resources strategy for future years' budgets. Work continues throughout the council to ensure that a balanced position is achieved by the end of the year.

6. The council agreed a balanced general fund budget of £271.4m on 24 February 2016 based on a nil council tax increase (with 2% precept for adult social care), and £6.2m use of reserves, giving a budget of £277.6m. This budget was set in the context of further significant overall cuts in government funding.

7. The council also approved budget decisions including reductions of some £26.6m within the general fund for 2016-17. Performance on achieving these savings is closely monitored and significant variances will be included in departmental narratives.

8. The cabinet agreed a balanced housing revenue account (HRA) budget on 27 January 2016.

KEY ISSUES FOR CONSIDERATION

General fund overall position

9. Table 1 below shows the current forecast outturn position by department. All strategic directors will continue to take action ensure that they deliver their services within budget. Progress for each department is shown in the narrative below.

Table 1: General fund outturn position for 2016-17

General fund	Original budget £'000	Budget movement £'000	Revised budget £'000	Forecast Spend in year £'000	Variance before use of reserves £’000	Net movement in reserves £'000	Total use of resources £'000	Variance after use of reserves £'000
Children's and Adults	171,464	(100)	171,364	186,386	15,022		185,386	15,022
Environment and Leisure	67,316	0	67,316	66,656	(660)		66,656	(660)
Housing and Modernise	64,911	0	64,911	66,769	1,858		66,769	1,858
Chief Executive's	8,355	100	8,455	8,455	0	0	8,455	0
Finance and Governance	19,586	0	19,586	19,297	(289)	0	19,297	(289)
Strategic Finance	(14,513)	0	(14,513)	(19,513)	(5,000)		(19,513)	(5,000)
Support cost recharges	(44,071)	0	(44,071)	(44,071)	0	0	(44,071)	0
Contingency	4,000	0	4,000		(4,000)		0	(4,000)
Total general fund services	**277,048**	**0**	**277,048**	**283,979**	**6,931**	**0**	**283,979**	**6,931**
Cost of voluntary redundancies				9,342	9,342	(9,342)	0	0
Additional cost of employer's NI contributions	500			2,188	2,188		2,188	1,688
Use of reserves to underwrite base budget	(6,170)	0	(6,170)	0	6,170	(6,170)	(6,170)	0
Net revenue budget	**271,378**	**0**	**271,378**	**295,509**	**24,131**	**(15,512)**	**279,997**	**8,619**

10. As shown in table 1, within services there is a forecast adverse variance of £8.619m. This is after the utilisation of reserves to fund redundancy costs not able to be met within departments. Included in the table above are planned reserve movements totalling £6.170m, reserves are considered in more detail in paragraphs 46 to 49.

Children’s and adults’ services (including public health)

11. Children’s and adults’ services experienced increased demand pressures in 2015-

16, at the same time as government cuts in funding. The department is encountering these pressures despite joint working with health, Better Care Fund services and a range of management actions and the council's protection of the children's social care budget.

12. The 2015-16 cost pressure of £18.7m was met by the planned use of departmental reserves. The increased pressures, in both level of demand and complexity of need, reflect the service pressures in social care being experienced across London and the country, and population increases of children and older people in Southwark. The 2016-17 position is made up of several years of pressures which were contained within previous higher funding levels, but now can't be met with lower resources. The department is aware that adjustments to the lower funding levels must be dealt with sensitively to reduce the impact on vulnerable residents.

13. Children's and adults' services is currently forecasting a potential overspend of £15.022m for 2016-17. This is assuming successful implementation of significant and sometimes complex management actions. The forecast excludes a £1m pressure from National Insurance (NI) rate changes and the one-off cost pressure from redundancies, both of which will be met by corporate funds.

14. The social care sector has been affected by demand pressures in both price (including London Living Wage) and volume. Inflationary pressures have been felt by providers and the department must consider the financial sustainability of providers to protect quality of care and safeguard our most vulnerable residents. The 2% precept for adult social care is rising in the region of £1.7m per annum and is being used to improve quality of services for older people and adults with disabilities living at home, in extra care housing, in care homes and in nursing care homes.

15. Implementation of the Care Act has increased levels of referrals, information and advice, and carers assessments. Many local families, people with disabilities and their carers continue to experience increased pressure and uncertainty in regard to welfare reform with additional calls on support from the council. The closure of government programmes such as the Independent Living Fund mean that vulnerable people lose access to funding that had previously helped to address inequalities. Legislative reforms in regard to 'staying put' for children in care into adulthood and additional support for people with disabilities and carers have been welcomed but are not fully funded by government causing financial burden on the council.

16. The council is committed to the Ethical Care Charter and has invested £2m, but there will be a further cost pressure in future years as part of the re-procurement of homecare contracts. In addition, the Better Care Fund has contributed £1.9m to support improved quality of care including this initiative. The position will need to be closely monitored through the procurement phases with a view to containing costs within the current budget constraints.

17. The allocation of Better Care Fund in 2016-17 (£21.8m) is marginally smaller than in 2015-16 (£22.0m) and it includes monies previously provided separately for winter pressures. Funding has been required to meet increasing demand in areas such as end of life care and dementia, and to develop 7 day working which is a key national condition of the funding. The department continues to support services beyond social care eligibility levels (such as meals on wheels and telecare) and services supporting the acute sector.

18. Southwark is the sixth best performer nationally for low levels of delayed transfers of care (DTOCs), with delays less than a third of the national average. Re-ablement services have been improved with a reduction in the number of patients re-admitted to hospital (over 90% of patients remain at home 90 days after discharge). This performance represents a saving to the public sector as a whole, but at a cost to the council. Care home admissions have been kept at low levels, through re-ablement and services such as Night Owls and Care@home, allowing more people to be cared for at home, and helping to rebuild confidence, mobility, and independence.

19. Children's and adults' services represents the largest proportion of the council's general fund budget and accordingly have repeatedly set out to achieve significant budget efficiencies and savings. In 2015-16 these amounted to £17.5m, with a further £41.4m to be achieved from 2016-17 to 2018-19. The department is managing a large programme of efficiency initiatives and is mindful that the pace of change must allow for the correct fulfilment of obligations to appropriate consultation, procurement and value for money assessments, and implementation in ways that appropriately mitigate risk and treat residents with dignity and respect. Some departmental efficiencies are contingent on successful engagement with health partners to update service user pathways and ensure appropriate identification of, and funding for, health care needs. Slippage has occurred with savings relating to some commissioned services but the department has strong plans to achieve savings in the medium term, including in collaboration with the modernise programme.

20. Children's and adults' services continues to mitigate demographic growth (in numbers of referrals and level of need) by promoting re-ablement and improved independence, increasing resident access of existing services in the community, utilising assistive technologies (such as telecare), and efficient use of community-based services (such as homecare, day care, respite and fostering) to reduce the need for residential care. The department is also ensuring value for money by benchmarking unit costs against statistical neighbours, London and national levels to ensure that service provision is in line with national eligibility criteria.

21. The department has undertaken several reviews of services, engaging service users, carers, care staff, trade unions, partners and stakeholders in order to agree plans for modernisation and to achieve improved outcomes and best value. Immense efforts by staff and management continue to deliver high quality care and support to meet statutory obligations for children in need and at risk, families in crisis, vulnerable adults and carers. These efforts are also ensuring that opportunities created in Southwark are available to all residents, including care leavers, people with disabilities and carers.

22. The public health grant in 2016-17 is £28.9m following reductions of £2.3m over 2015-16 and 2016-17. Further reductions are indicated for the period 2017-18 to 2019-20 totalling £2.2m (7.6%). There is a continuing demand pressure in sexual health services of £2m, despite cost pressures being reduced where controllable through use of block contract arrangements and more efficient methods of service delivery. The public health grant currently supports council priorities including free healthy school meals, libraries and community sports, as well as core services for sexual health, substance misuse, obesity, health checks, children's health visitors and school nursing.

23. Southwark's education services continue to provide a high quality service, being

in the top eight of local authorities in the country for the proportion of schools rated as good or outstanding. The division is currently meeting significant special education needs cost pressures within its existing budget, with rising costs in placements and related transport, increasing demand in services for young people over 16 years old, and increasing demand in particular for Autistic Spectrum Disorder (ASD) placements. A strategy is being developed including increasing in-borough provision to reduce the need for expensive private and independent placements. Potential changes to the national funding formula remain a medium term risk for the division, and the education services grant (used to support statutory functions in relation to schools) was reduced in 2016-17 to £2.6m with the resulting budget pressure of £200k being met within the division.

24. The council has engaged RSM Tenon, under an executive board headed by the chief executive, to undertake a thorough review of the pressures underlying the current budget variations. These findings will be reported in November for consideration by the executive board.

Environment and leisure

25. The environment and leisure department is forecasting a favourable variance of £660k. This does not include budget pressures of £589k from additional costs of employer's NI contributions to be met by corporate funds.

26. The main pressures within the departmental budget are from the impact of the Greater London provincial council pay agreement for low paid staff (£108k) and the net cost to the department of the voluntary enhanced redundancy scheme 3 (£600k).

27. These budget pressures are mitigated by favourable variances in road network management and parking services (£650k) resulting in a favourable variance of £660k as shown above.

28. The department has implemented most of its proposed savings for this financial year, although some of the savings options for the waste division have had to be delayed. The department is confident of fully achieving its savings target but should a shortfall result this will be mitigated by favourable variances elsewhere in the department.

Housing and modernisation

29. Early forecasts show an adverse variance of £1.858m after the planned drawdown of earmarked reserves to cover known commitments within the modernisation division. The forecast is based on best estimates and includes a number of assumptions in terms of volumes, activity and costs. It remains subject to movement and should be viewed with caution at this point. The forecast currently excludes costs arising from the council's voluntary severance scheme, which it is assumed will be met from corporate reserves. At this time it is estimated that these will be in the region of up to £3.743m.

30. Previous monitoring reports have alerted cabinet to the significant financial pressure presented by increasing demand for temporary accommodation and consequent costs. This pressure is believed to have been caused not least by recent legislative changes especially with regard to welfare benefit, the costs of housing in inner London and population movements. Limited use of privately leased accommodation has helped to meet some demand, but for many providers

this is no longer financially viable given the impact of welfare benefit reforms. Wherever possible, the council uses its HRA hostels and estate voids rather than more expensive nightly paid accommodation as a means of mitigating the cost to the general fund. In recognition of the continued trend of rising demand and costs, the council agreed to increase the budget provision for temporary accommodation from 2016-17, which based on current activity levels can be contained within the resources available.

31. NRPF (No Recourse to Public Funds) is demand driven and has become a significant drain on council resources. Despite a thorough review of long standing cases and the introduction of a more rigorous assessment process caseload remains high. In recognition of this pressure, the council agreed to reinstate the budget provision to its former level prior to transfer to housing and modernisation. The total budget in 2016-17 is £4.13m. However, given the current upward demand trend, costs are almost certain to exceed budget and require the drawdown of corporate reserves or contingency to fund the additional expenditure of £1.87m.

Chief executive's department

32. The chief executive's department is forecasting a zero variance. The main budget pressures are from the removal of the 3.4% national insurance rebate for staff in the pension scheme (£62k), which is shown separately in table 1. The net cost of the voluntary enhanced redundancy scheme 3 is being managed within departmental budgets.

33. The department has implemented most of the proposed savings for this financial year. Although one of the 2016-17 proposed savings options for the chief executive's office has created a budget pressure the department is confident of fully achieving its savings target. Any shortfall which does arise will be mitigated by other favourable variances within the department.

Finance and governance

34. The department is currently forecasting a £289k favourable variance, before any planned utilisation of reserves. This does not include £441k additional costs of employer's national insurance contributions to be met by corporate funds, which are shown separately in table 1. The remaining variance is made up of two key areas:

- £241k favourable variance from financial and information governance division mostly attributable to staff vacancies
- £394k adverse variance reported by law and democracy, relating to the costs of the European Referendum election costs which may not be reimbursed from grant.

35. Work is underway to balance the budget position, including consideration of the use of reserves to support any unfunded election and referendum costs and any future voluntary severance costs.

Strategic finance

36. As part of the budget savings proposals, a review of the council's minimum revenue provision was undertaken, facilitating future savings of £5m per annum.

As noted in the outturn report, this saving was delivered in 2015-16 and will be ongoing in 2016-17. As this saving was not included in 2016-17 projections, it presents a one-off windfall which will be used to offset the budget pressures described above.

Contingency

37. It is anticipated that the £4m contingency budget will be fully utilised to meet the children's and adults' services and No Recourse to Public fund budget pressures as described above.

Voluntary severance

38. In order to mitigate the impact of cuts and budget reductions on staff, the enhanced voluntary severance scheme was re-opened for a limited period. Where possible departments are asked to meet these costs from within their departmental budgets and savings from related staff budgets. Where this is not possible departments have provided an indication of potential requests from reserves within the narrative above, and this has been reflected in table 1. A clearer forecast of these costs will be reported as part of the next planned revenue monitoring report in February 2017, and where relevant costs may be capitalised.

Progress in delivering efficiencies and improved use of resources and income generation

39. As part of the budget setting process for 2016-17, £26.6m savings and income generation proposals were agreed. At this point, it is anticipated that in the majority of cases, where savings are at risk of being fully implemented in year, substitute savings have been identified, as reflected in the forecast outturn position reported for each department.

Housing revenue account (HRA)

Table 2: HRA forecast outturn position for 2016-17

Division	Full Year Budget £000	Forecast Outturn £000	Forecast Variance £000
Central Services	(92,937)	(93,670)	(733)
Asset Management	49,070	50,233	1,163
Communities	(6,781)	(7,070)	(289)
Resident Services	28,610	28,693	83
Modernisation	(5,493)	(5,493)	0
Customer Services	(1,499)	(1,519	(20)
Revenue funding to Housing Investment Programme	27,593	27,593	0
Total variance (under)/overspend			**204**
Appropriation to/from Reserves	1,436	1,232	(204)
Total HRA	**0**	**0**	**0**

40. Indications are that the outturn will be broadly neutral overall based on known budget pressures and commitments, with planned contributions to the housing

investment programme (HIP), reserves and debt repayment broadly in line with expectations, and a small overspend met by a reduced contribution to reserves. The key budget headlines are outlined below.

41. Landlord services, particularly the maintenance, repair and improvement of the housing stock, consume the greatest proportion of operating resources. The continued robust management and control of high volume, high value contracts continues to deliver greater value for money, but budgets remain under considerable pressure following the reduction in rents arising from the imposition of central government rent control. Included in the forecast is a projected adverse variance of £1.2m from Southwark Building Services (SBS) which falls as a cost to the HRA as their primary client. Management are currently considering measures to improve the trading performance going forward.

42. 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 is tracking to budget and rent collection performance continues to show resilience, notwithstanding the impact of welfare benefit changes and the roll-out of direct payment and universal credit. The HRA continues to maintain adequate provisions to meet potential losses of this nature at all times.

43. Homeowner service charges represent the second largest income stream to the HRA and costs are fully recoverable under the terms of our 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 Warm, Dry and Safe (WDS), Fire Risk Assessment (FRA) and other works programmes has accelerated rapidly in recent years, which has been reflected in higher billing and this will be carried through into the current year. Collection of £15.8m has been achieved to the end of July, including service charge loans, which suggests a full-year figure in excess of the target of £35.5m.

44. The central services activity accounts for over half of the gross HRA and comprises key budgets pertaining to departmental and corporate overheads, financing, capital expenditure from revenue account (CERA), depreciation, arrears write-offs/provisions and major projects, such as Aylesbury, the revenue impact of which falls outside mainstream operational budgets due to their exceptional nature. There are a number of known pressures and commitments in the pipeline, the extent of which are not yet fully quantified, but which are expected to be contained within budget.

45. The ring-fenced nature of the HRA requires that surpluses or deficits are carried forward between years and at 31 March 2016 HRA reserves stood at £16.6m. Whilst every effort is made to maintain reserves at an appropriate level to mitigate future risks, fulfil future commitments already made and enable the transformation and modernisation of services going forward, this is currently below the optimal level required and presents a moderate risk, which will be managed throughout the year and addressed in subsequent budget planning rounds.

Reserves

46. 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 or pressures which are difficult to predict and which are not included in revenue budgets or within the capital programme.

47. Where a department identifies a need for additional funding there is a robust process for seeking support from reserves. The department must demonstrate that it is unable to contain the identified additional pressure within its existing budget, or provide evidence of prior agreement that the expenditure will be met from reserves.

48. The budget approved by council for 2016-17 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. This call on reserves will have to be made in full. As the year progress departments will continue to take management actions to reduce the cost pressures identified, and any plans to draw down further from reserves to support the budget for 2016-17 will be monitored.

49. The level of reserves will need to be kept under close review, in 2015-16, £21.6m revenue reserves were utilised, resulting in revenue reserves opening balances of £56.35m for 2016-17. As the period of austerity and funding reductions for local government continues, the council will wish to ensure that reserves are retained at appropriate and adequate levels to safeguard service provision as well as to support modernisation of the organisation. The strategic director of finance and governance will report on the adequacy of reserves moving forward.

Council tax/business rate collection fund

50. Business rate collection performance, together with additional development within the borough, continues to be ahead of target. Under the business rate retention system the council retains 30% of any business rate growth beyond the baseline set by the government.

51. With regard to council tax, the combination of increased homes, reduced council tax support claimants and lower awards of reliefs and exemptions means that council tax income in 2016-17 exceeds forecast. This has also contributed to an estimated surplus on the collection fund at 31 March 2017 of £3.6m, which, if confirmed closer to the date, will be distributed to preceptors to support the 2017-18 budget, in accordance with regulations.

52. The updated medium term financial strategy (table 3) reflects technical adjustments relating to a review of the council's balance sheet. A significant part of the £5.0m relates to amounts previously set aside for business rate appeals. If a business disagrees with a property's rateable value they can appeal the valuation which will be considered by an independent valuation tribunal. There are currently 2,300 outstanding appeals. The uncertainty created by appeals means that resources that could be spent on local services have to be held back to cover the costs of successful challenges and back dated appeals. In closing the 2015-16 accounts, and based on local experience of previously settled claims, we have

reviewed and reduced the level of resources set aside for appeals.

53. The medium term financial strategy assumes that the council tax will not increase over the three year period 2017-18 to 2019-20 and that the powers to raise the adult social care precept of 2% will be applied. Broadly, a 2% increase in council tax will raise around £1.7m per annum.

Financial implications for the Fairer Future medium term financial strategy (FFMTFS) 2017-18 onwards

54. In September 2016, cabinet was provided with an update on the FFMTFS. This set out a three year indicative budget (2017-18 to 2019-20), building on the original budget set in February 2016 and subsequently updated in line with the provisional government settlement for 2019-20. This included a further funding reduction of revenue support grant, other grants and New Homes Bonus of £9.2m. Budget setting is an iterative process; adjustments are expected to continue to be made as further information becomes available.

55. This report has described ongoing forecast cost implications for 2016-17 that need to be factored into the FFMTFS. These additional budget pressures netted against updated income forecasts have resulted in updated budget shortfall across the three years. This is set out in full in table 3. Assumptions for future years funding continues to be uncertain given changes in the New Homes Bonus, new Better Care funding arrangements and impact of welfare reforms.

56. The budget pressures identified in children's and adults' services, impact of increased national insurance costs across the council and no recourse to public funds cost pressures represents ongoing cost pressures of £18.5m. This is only in part offset by additional revisions to the minimum revenue provision. Further, over this period a review of council tax and business rates income and provisions has lead to an assumed increase in income, offset against a revised downward estimate of new homes bonus. Further, the children's and adults' social care budget pressure assumptions of £15m will be subject to review once the RSM Tenon findings have been considered.

57. Officers are being asked to prepare proposals for savings over the next three years. These will represent a reduction of around 20% net budget above those savings (£42.6m) set out in the February 2016 indicative budget. The immediate priority is to provide savings to balance the budget for 2017-18 with further budget options for the following two years also to be considered.

58. As in previous years a robust budget challenge process will be followed with the initial budget proposals to be considered in December cabinet. Further, new savings proposals will be subject to equalities impact assessments and stakeholder consultation as appropriate.

59. By February 2017, a balanced budget for 2017-18 will be presented to council assembly. Meeting the challenge of £8.1m for 2017-18 will have positive benefits for future years, reducing the current predicted funding shortfall to £11.9m in 2018-19 and £23.3m in 2019-20.

Table 3: Medium term financial strategy as at October 2016

	2016-17 £m		2017-18 £m	2018-19 £m	2019-20 £m
Resources (change in each year)			**(304.5)**	**(298.5**	**(290.2)**
Retained Business Rates (DCLG)	(60.7)		(1.2)	(-1.8)	(2.1)
Business rates top-up (DCLG)	(45.3)		(0.9)	(1.4)	(1.5)
Revenue Support grant and other grants (inc. Public Health and Specific Grants)	(106.6)		17.2	11.5	11.8
Total funding including public health and other specific grants	**(212.6)**		**-289.4**	**(290.2)**	**-282.0)**
Council Tax baseline	(83.2)		(2.5)	(0.7)	(1.2)
ASC Council Tax precept	(1.7)		(1.7)	(1.8)	(1.9)
Estimated Business Rates Retained	(4.6)		(4.3)	0	0
Collection fund surplus	(2.4)		(0.6)	2.5	0
Total revenue from council tax and business rates	**(91.9)**		**(9.1)**	**0**	**(3.1)**
Total funding	**(304.5)**		**(298.5)**	**(290.2)**	**(285.0)**
Budget starting point including Public Health expenditure (change in each year)	**318.2**		**310.7**	**316.6**	**314.2**
Employees (1% p.a)	1.7		1.7	1.7	1.7
Employees - NI increase	0.5		1.5	0.0	0.0
Contractual inflation	2.8		1.5	1.5	1.5
Commitments	11.0		7.8	6.2	0.3
Children and Adults budget pressure			15.0	0.0	0.0
No recourse budget pressure	2.3		2.0	0.0	0.0
Technical adjustments (paragraph 52)			(5.0)		
Grants					
Changes to New Homes Bonus	(6.3)		2.5	3.0	(0.8)
Changes in grant related expenditure	5.4		0.0	0.0	0.0
HB admin subsidy and council tax support	0.7		0.6	0.6	
Net change in council tax freeze grant	0.9				
Net Budget before proposals	**337.2**		**343.3**	**329.6**	**316.9**
Proposals					
Effective use of resources and efficiencies	(13.9)		(19.2)	(8.8)	0.2
Income generation	(10.0)		(6.0)	(5.0)	0.0
Savings impacting on service delivery	(2.6)		(1.5)	(1.6)	(0.7)
Total budget	**310.7**		**316.6**	**314.2**	**316.4**
Current contribution from balances	(6.2)		(5.0)	(4.0)	0.0
Net budget after contribution from balances	**304.5**		**311.6**	**310.2**	**316.4**
Funding Shortfall / (Surplus)	**0.0**		**8.1**	**20.0**	**31.4**

Treasury management

60. The council holds its cash in money market instruments diversified across major banks, building societies, and bonds issued by the UK government and supranational entities. Cash funds represent income received in advance of expenditure plus balances and reserves. The investment priorities are capital

preservation and liquidity. These investments are managed by an in-house operation and two investment firms: Aberdeen Asset Managers and AllianceBernstein. Investments are rated in the following way by Fitch, Moody's and Standard and Poor's:

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)

61. Up to the end of the period the sum invested averaged £164m (£245m during the same period last year) and the balance at 30 June 2016 was £186m (£264m at 30 June 2015). The reducing cash balances reflects a number of factors, in particular the use of reserves to support both capital and revenue spending and reduced government funding.

62. The average return over the quarter was 0.60%. Base rate at 31 July was 0.5%. At its meeting in August, the Monetary Policy Committee cut Bank Rate to 0.25% from 0.5% and introduced a term funding scheme. Rates had been held at 0.50% since 2009. Reducing cash balances and 'lower for longer' interest rates mean that investment returns will be lower than that earned in recent years.

63. The council's investment maturity profile as at 30 June 2016 is shown below

INVESTMENT MATURITY PROFILE AND RATING - 30 JUNE 2016				
Yr Band	**A**	**AA**	**AAA**	**Total**
Up to 1 Year	19%	18%	43%	**80%**
1 - 2 years	2%	9%	2%	**13%**
2 - 5 years	0%	4%	2%	**7%**
Total	**21%**	**32%**	**47%**	**100%**

		CREDIT RATING			FUND			
Couterparty	Country Of Origin	Sovereign Rating	Long-term	Short term	Aberdeen £m	Alliance £m	In house £m	Grand Total £m
AUSTRALIA & NEW ZEALAND BANKIN	AUSTRALIA	AAA	AA-	F1+	2.0	1.4	-	3.4
BANK NEDERLANDSE GEMEENTEN N	NETHERLANDS	AAA	AAA		-	0.7	-	0.7
BANK OF AMERICA	UNITED STATES	AAA	A+	F1+	3.0	-	-	3.0
BANK OF MONTREAL	CANADA	AAA	AA-	F1+	-	1.7	-	1.7
BANK OF NOVA SCOTIA	CANADA	AAA	AA-	F1+	2.0	1.4	-	3.4
BARCLAYS BANK PLC	GREAT BRITAIN	AA+	A	F1	-	2.2	-	2.2
BRITISH POUND	GREAT BRITAIN	AA	AA+		-	11.3	-	11.3
CAISSE D'AMORTISSEMENT DE LA D	FRANCE	AA	A2		-	1.4	-	1.4
CANADIAN IMPERIAL BANK	CANADA	AAA	AA-	F1+	2.0	2.2	-	4.2
COMMONWEALTH BANK OF AUSTRA	AUSTRALIA	AAA	AA-	F1+	3.6	2.2	-	5.8
CREDIT AGRICOLE CORP & INVST BA	FRANCE	AA	A	F1	1.5	2.3	-	3.8
CREDIT SUISSE AG/LONDON	SWITZERLAND	AAA	A	F1	1.2	1.3	-	2.5
DANSKE BANK A/S	DENMARK	AAA	A	F1	3.0	1.4	-	4.4
EUROPEAN INVESTMENT BANK	SUPRANATIONAL	AAA	AAA	F1+	4.9	-	-	4.9
EXPORT DEVELOPMENT CANADA	CANADA	AAA	AAA		-	1.4	-	1.4
FMS WERTMANAGEMENT AOER	GERMANY	AAA	AAA	F1+	-	2.9	-	2.9
GLOBAL TREAS FUNDS - MMF	GLOBAL	AAA	AAA		-	-	33.4	33.4
ING BANK NV	NETHERLANDS	AAA	A+	F1	-	2.1	-	2.1
INTERNATIONAL BANK FOR RECON &	SUPRANATIONAL	AAA	AAA	F1+	-	2.9	-	2.9
INTERNATIONAL SECURITY FUND - M	GLOBAL	AAA	AAA		-	-	34.8	34.8
JPMORGAN CHASE & CO	UNITED STATES	AAA	AA-	F1+	-	1.4	-	1.4
LLOYDS TSB BANK PLC	GREAT BRITAIN	AA	A+	F1	3.0	2.2	-	5.2
NATIONAL AUSTRALIA BANK LTD	AUSTRALIA	AAA	AA-	F1+	2.5	1.5	-	4.0
NATIONWIDE BUILDING SOCIETY	GREAT BRITAIN	AA	A	F1	-	2.3	-	2.3
NEDERLANDSE WATERSCHAPSBANK	NETHERLANDS	AAA	AAA		-	2.2	-	2.2
NORDEA EIENDOMSKREDITT AS	NORWAY	AAA	AA-	F1+	-	2.2	-	2.2
RABOBANK LONDON	GREAT BRITAIN	AA	AAA		-	1.9	-	1.9
ROYAL BANK OF CANADA	CANADA	AAA	AA	F1+	2.0	1.7	-	3.7
SANTANDER UK PLC	GREAT BRITAIN	AA	A	F1	-	1.4	-	1.4
SKANDINAVISKA ENSKILDA BANKEN	SWEDEN	AAA	AAA		-	1.6	-	1.6
SOCIETE GENERALE	FRANCE	AA	A	F1	4.5	2.3	-	6.8
STANDARD CHARTERED BANK	GREAT BRITAIN	AA	A+	F1	1.0	-	-	1.0
SWEDBANK HYPOTEK AB	SWEDEN	AAA	AAA		-	1.5	-	1.5
SVENSKA HANDELSBANKEN	SWEDEN	AAA	AA	F1+	3.0	-	-	3.0
TORONTO-DOMINION BANK	CANADA	AAA	AA-	F1+	3.0	1.4	-	4.4
UBS LONDON	SWITZERLAND	AAA	A	F1	3.5	-	-	3.5
UNITED KINGDOM I/L	GREAT BRITAIN	AA	AA+	F1+	-	7.1	-	7.1
UNITED KINGDOM TBILLS	GREAT BRITAIN	AA	AA+	F1+	-	2.3	-	2.3
WESTPAC BANKING CORP	AUSTRALIA	AAA	AA-	F1+	1.0	-	-	1.0
Grand Total					**46.7**	**71.9**	**68.2**	**186.8**

64. In the year £2.5m in Public Works Loan Board (PWLB) loans matured and were paid off. No new loans were taken and the debt balance outstanding at 30 June 2016 was £460m. Affordability and the "cost of carry" remained important influences on the council's borrowing strategy.

65. All treasury management activity was in compliance with the approved treasury management strategy and prudential indicators for 2016-17.

66. In the lead up to, and following the result of the EU referendum there has been reassurance that the Bank of England was ready to support money market liquidity. Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls.

67. Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard and Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S and P and Moody's have a negative outlook on the UK.

68. Moody's affirmed the ratings of nine UK banks and building societies and revised the outlook to negative for those banks and building societies that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

69. There was no immediate change to Arlingclose's credit advice on UK banks and building societies as a result of the referendum result.

Community impact statement

70. This report monitors expenditure on council services, compared to the planned general fund budget agreed in February 2016, and HRA budget agreed in January 2016. Although as a monitoring report this report has been judged to have no direct 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 2016-17 to 2018-19: Cabinet 09/02/2016	160 Tooley Street PO Box 64529 London SE1P 5LX	Fay Hammond 020 7525 0614
Link: http://moderngov.southwark.gov.uk/documents/s59876/Report%20Policy%20and%20Resources%20Strategy%20201617%20-%20201819.pdf		
Housing Revenue Account budget: Cabinet 27/01/2016	160 Tooley Street PO Box 64529 London SE1P 5LX	Ian Young 020 7525 7849
Link: http://moderngov.southwark.gov.uk/documents/s59180/Report%20HRA%20final%20rent%20setting%20and%20budget%20report.pdf		

APPENDICES

No.	Title
None	

AUDIT TRAIL

Cabinet Member	Councillor Fiona Colley, Finance, Modernisation and Performance		
Lead officer	Duncan Whitfield, Strategic Director of Finance and Governance		
Report author	Jennifer Seeley, Director of Finance		
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CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
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Director of Law and Democracy		No	No
Strategic Director of Finance and Governance		N/A	N/A
Cabinet Member		Yes	Yes
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