

Item No. 13.	Classification: Open	Date: 18 July 2017	Meeting Name: Cabinet
Report title:		Revenue Monitoring Report and Treasury Management 2016-17 Outturn Report	
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

As anticipated in our last revenue monitor report the authority ended 2016-17 considerably over budget. I am pleased though to say that work on budget recovery over the last six months was effective and that the situation was at least stabilised during a period of exceptional pressure on social care services, both children's and adults.

However, the use of £27.4m of reserves in a single year is not something we can afford to repeat. We have taken account of demand pressures in Adult Social Care and No Recourse to Public Funds and increased the budget for these areas for 2017-18 and again protected the Children's' Services budget, but none the less all these areas have a lot of work to do to ensure they stay within budget in 2017-18.

There was better news from other departments which stayed within budgets or underspent and excellent work by the finance team to make money saving, yet prudent changes, to re-profile debt repayments earlier than originally planned.

The work of the Budget Recovery Board will continue, action is being taken to address growing financial challenges in the early years budget and work continues to ensure we can maximise the use of the Better Care Fund to support key social care priorities.

RECOMMENDATIONS

That the cabinet:

1. Notes the general fund outturn position for 2016-17 (Table 1).
2. Notes the key variations and budget pressures underlying the outturn position:
 - continuing pressures on Children's and Adults' social care and public health leading to an overall adverse variance of £14.887m (paragraphs 25 to 38)
 - the budget pressures on No Recourse to Public Funds (paragraphs 48)
 - Other various adverse variations including ICT and facilities management (paragraphs 48 to 53).
3. Notes the actions of the Budget Recovery Board set up to oversee action plans to address children's and adults social care pressures (paragraph 39, Appendix A).
4. Notes the variations helping to relieve the outturn position:

- one-off favourable variances in strategic finance, including early realisation of MRP savings (paragraphs 56)
 - utilisation of £4m contingency (paragraph 60) to offset adverse variances across the council
 - planned use of earmarked reserves to fund the residual costs of the enhanced voluntary redundancy scheme (EVR) of £5.264m and a further £2.180m which has been capitalised
 - planned use of departmental and financial risk reserves of £18.058m.
5. Notes, as set out in the previous period 8 monitoring report to cabinet, the unplanned use of reserves to fund the total adverse variation from budget after the planned use of reserves of £8.830m.
 6. Notes the following in respect of ring-fenced budgets:
 - housing revenue account outturn for 2016-17 (table 2, paragraphs 63)
 - the dedicated schools outturn and utilisation of £8.922m reserves (paragraphs 70);
 7. Notes the detailed utilisation of reserves in 2016-17 and closing reserve balances as set out in the report (paragraph 73 to 78).
 8. Notes the treasury management activity in 2016-17 (paragraphs 87 to 92).
 9. Approves the general fund budget movements that exceed £250k, as shown in Appendix B.
 10. Notes the general fund budget movements that are less than £250k as shown in Appendix B.
 11. Notes the outturn position implications for the 2017-18 budgets and beyond set out in paragraph 84.

BACKGROUND INFORMATION

12. This report sets out the outturn position for the general fund, housing revenue account and dedicated schools grant for the 2016-17 financial year.
13. Council assembly 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 £6.170m use of reserves, giving a budget of £277.6m. This budget was set in the context of further significant overall cuts in government funding. This was after maximising resources available from both business rate retention and growth in the council tax base.
14. The council also approved budget decisions including reductions of some £26.6m within the general fund for 2016-17. Performance on achieving these savings was monitored and significant variances are highlighted in this report.
15. The cabinet agreed a balanced housing revenue account (HRA) budget on 27 January 2016.
16. The Dedicated Schools Grant budget was agreed with the Schools Forum, with a planned utilisation of £4m of reserves and further contingencies set aside within the reserve for high needs. The total grant allocation in 2016-17 was £189.340m.

KEY ISSUES FOR CONSIDERATION

General fund overall position

17. The final outturn position for the general fund is balanced after the utilisation of reserves as set out in Table 1 below. This table sets out the departmental budget outturn variances together with the planned and unplanned utilisation of reserves to come to the balanced budget as at the end of 2016-17.
18. The underlying cost pressures within this balanced budget include a £14.887m adverse variance within Children's' and Adults' Services and £4.161m reported within Housing and Modernisation relating to No Recourse to Public Funds and pressures in ICT and facilities management. These variances are described in more detail in the narrative below. These underlying key adverse variances reported in Table 1 below are broadly comparable to the month 8 position reported in February 2017.
19. This adverse budget position is offset through a favourable variance in corporate arising from early realisation of the review of the Minimum Revenue Provision and the £4m contingency.
20. After the utilisation of £18.058m general fund reserve movements, the final budget variance was £8.830m which was subsequently funded through an unplanned use of reserves. This takes the total use of reserves (general fund and Dedicated Schools Grant) to £26.888m.
21. This compares to month 8 cabinet report of a forecast outturn position adverse variance of £9.632m after the estimated use of reserves of £16.757m. This movement from the forecast use of reserves is mainly attributable to an increased utilisation of the Dedicated Schools Grant ring-fenced reserve from £4m originally planned (paragraph 70).

Table 1: General fund outturn position for 2016-17

General fund	Original budget £000	Budget movement £000	Revised budget £000	Spend in year £000	Total Net Reserve Movements £000	Total use of resources £000	Variance after use of reserves £000
Children's and Adults'/Public Health	171,464	-821	170,643	196,980	-11,450	185,530	14,887*
Dedicated Schools Grant	0		0	8,922	-8,922	0	0
Environment and leisure	67,316	3,012	70,328	68,570	1,550	70,120	-208
Housing and modernisation	64,911	2,940	67,851	73,034	-1,022	69,832	4,161
Chief executive's department	8,355	-476	7,879	3,490	3,606	7,096	-783
Finance and governance	19,586	271	19,857	18,500	1,298	19,798	-59
Corporate	-14,013	-3,140	-19,333	-27,553	3,052	-22,321	-5,168
Support cost recharges	-44,071	394	-43,677	-43,677	0	-43,677	0
Contingency	4,000	0	4,000	0	0	0	-4,000
Total general fund services	277,548	0	277,548	298,266	-11,888	286,378	8,830
Use of reserves to underwrite base budget	-6,170	0	-6,170	0	-6,170	-6,170	0
Net revenue budget	271,378	0	271,378	298,266	-18,058**	280,208	8,830
Use of reserves to balance the budget							-8,830
Final outturn after the use of reserves							0

*Children's Services £7.193m/ Education -£0.070m/ Adult Social Care £7.371m; Commissioning

£0.393m; Public Health £0 after transferring £1.907m to a negative reserve which will be the first call on the 2017-18 ring-fenced Public Health grant.

** This includes reserve contribution to redundancy costs of £5.264m

22. The appendices attached to this report provide more detail on the in year budget movements, the utilisation of reserves by each department and closing reserve balances (Appendices C, D and E).
23. The overall impact of these transactions are reported in full within the draft statement of accounts which are to be considered by the Audit, Governance and Standards committee, and were signed by the S151 Officer on 30 June 2016. These are now subject to external audit.
24. The following key areas of activity for the year are outlined below:
 - Children's and Adults Services and Public Health (paragraphs 25 to 38)
 - Environment and Leisure (paragraph 42)
 - Housing and Modernise (paragraphs 43 to 53)
 - Chief Executives (paragraph 54)
 - Finance and Governance (paragraph 55)
 - Strategic Finance (paragraph 56)
 - Contingency (paragraph 60)
 - Savings (paragraph 59)
 - Voluntary redundancy (paragraph 61)
 - Housing Revenue Account (paragraphs 63 to 69)
 - Dedicated Schools Grant (paragraph 70)
 - Reserves (paragraphs 73 to 78)
 - Collection Fund (paragraphs 79 to 83)
 - Treasury Management (paragraphs 87 to 92).

Children's and Adults' Services (including Public Health)

25. The overall outturn on Children's and Adults' Services is £14.887m, as forecast at month 8, and after the utilisation of £11.450m reserves. The variances by service are: Children's Services £7.193m, Education -£0.070m (underspend), Adult Social Care £7.371m, Commissioning £0.393m and Public Health £0 after transferring £1.907m to a negative reserve. This Public Health reserve will be the first call on the 2017-18 ring-fenced Public Health grant.
26. 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.
27. 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.
28. The outturn position reports an adverse variation for children's and adults' services and Public Health in 2016-17 of £14.887m, after the planned use of departmental and corporate reserves and the ring-fencing of the Public Health adverse variance. 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 raised in the region of £1.7m and was 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.

29. 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.
30. 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.
31. The allocation of Better Care Fund in 2016-17 (£21.8m) was marginally smaller than in 2015-16 (£22.0m) and it included 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.
32. Southwark has been 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.
33. Children's and Adults' Services represents the largest proportion of the council's budget and accordingly have repeatedly set out to achieve significant budget efficiencies and savings. These amounted to £17.5m in 2015-16 and £17.3m in 2016-17. 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.
34. 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.

35. 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.
36. The public health grant in 2016-17 was £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%). The continuing demand pressure in sexual health services was demonstrated in 2016-17 through an adverse variance of £1.9m, 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, smoking, health checks, children's health visitors and school nursing.
37. 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.
38. The council engaged RSM Tenon to undertake a thorough review of the pressures underlying the current budget variations. This investigation was completed and largely supported the variations previously identified. A budget recovery board was established, chaired by the strategic director of finance and governance and supported by the strategic director of children and adults, which reported to the chief executive weekly. The work of this board is described in more detail below.

Budget Recovery Board (Children's, Adults' and Public Health)

39. The revenue outturn for 2016-17 shows a significant overspend of £14.887m, which has been contained to the month 8 forecast position. The level of scrutiny applied by the Budget Recovery Board to the budget position has contributed to ensuring that this budget position stabilised and to the accuracy of this forecast.
40. The Budget Recovery Board continues to meet fortnightly and has oversight of a number of action plans that redress the position with the aim of reconciling the progress of these actions with the council's overall budget position. Through this robust monitoring process officers are held to account for these action plans. A Service Director is allocated for each of the action plans which include key milestones for the delivery of the plan, including for example, matters where stakeholder consultation is necessary. The Board operates with close consideration of the need to meet the council's statutory duties and manage risk appropriately to ensure a safe service.

41. The Budget Recovery Board will continue to meet until the Strategic Director of Finance and Governance is confident that the budget position is fully recovered. An additional update is provided at Appendix A. The indicative budget for 2018-19 covered elsewhere on the agenda, assumes that the action plans implemented will fully offset the cost pressures and that the expenditure will be contained within the existing budget envelope for 2017-18 and beyond.

Environment and Leisure

42. The outturn for the department was a favourable variance of £208k against budget. There were significant cost pressures impacting on departmental budgets from the Voluntary Enhanced Redundancy (VER) scheme 3 and ill health/early retirement costs and the new Corporate Facilities Management contract. These cost pressures were mitigated mainly by robust management of departmental budgets and favourable variances resulting in a net departmental underspend of £207k. The department has achieved the savings target set for the year.

Housing and Modernisation general fund outturn

43. Overall, there is an adverse variance of £4.161m against budget, after the planned drawdown of earmarked reserves to cover exceptional items, including one-off external procurement costs and specialist technical support for the transformation agendas in ICT and facilities management. This is marginally more than the month 8 forecast (November 2016). The variance excludes all severance and redundancy costs which are funded corporately. The key headlines are outlined below.

Housing solutions/temporary accommodation (TA) – customer services division

44. Previous monitoring reports have alerted cabinet to the financial pressure presented by the continued and relentless demand for temporary accommodation. This has been exacerbated by recent legislative changes particularly welfare benefit reforms and wider macroeconomic factors such as the high cost of housing in inner London and demographic changes.
45. Historically, London local authorities have been able to source accommodation from the private rented sector, however use of private sector leased accommodation is largely no longer financially viable for providers due to benefit changes, which has adversely impacted the supply side, with the Local Housing Allowance greatly below the market rent levels being charged in the capital, and increasingly in parts of the south-east. The greater availability of estate void properties and hostels within the HRA, rather than more expensive nightly paid accommodation, has helped to mitigate the financial burden on the general fund to some extent. In addition, the council have introduced a number of successful homeless prevention initiatives that have contributed to meeting the council's statutory homelessness obligations for the provision of TA and kept costs to within a small margin of the budget (£0.2m overspend). In recognition of our success in this area, the council has been awarded £1m funding from government to act as a trailblazer pilot for homelessness prevention, however we have yet to see any significant reduction in homelessness applications and requests for TA.
46. A number of other budget pressures totalling £0.7m arose within the Housing Solutions service during 2016-17. These included additional legal costs arising from challenges to the council's homeless decisions, additional staffing requirements to manage higher housing application volumes and the requirement to provide against a higher level of arrears given the detrimental impact that welfare benefit changes have had on income collection performance.
47. Within the Customer Services division overall there was a small (£0.1m) positive variance across all the other activities, including the customer contact centre, resulting in a net

overspend of £0.8m.

No Recourse to Public Funds (NRPF) – Community services division

48. Like TA, this service is demand driven, subject to volatility and presents a considerable financial risk for the council. An extensive review into how this service is delivered has resulted in a new management structure and monitoring arrangements for the NRPF caseload, which, dependent on social care responsibilities for the client group, had been held in different parts of the council. The full extent of the inherited caseload is now visible and resources are in place to undertake the systematic review of long-standing cases and where appropriate close them, which has already generated cost savings. The introduction of a more rigorous assessment process for new cases has produced a noticeable reduction in new acceptances and indications are that numbers presenting have plateaued. Despite these and innovative prevention initiatives, demand and costs remain high, with the outturn for 2016-17 being £3.7m above budget. Going forward, council assembly recognised the budget pressure and approved an additional commitment for 2017-18, with the imperative being to contain costs within the revised base as a minimum, which represents a challenging target in the circumstances.

ICT and Facilities Management (FM) – modernisation division

49. There are a number of long-standing budget pressures inherent in both these areas which have and continue to be addressed. For 2016-17, there were exceptional costs of £1.4m (net) after the drawdown of earmarked reserves.
50. Earlier reports to cabinet have set out the council's strategy for delivery of the ICT service going forward, namely to enter into a shared service arrangement with the London Boroughs of Brent and Lewisham, following the imminent termination of the council's existing contract with Capita. There is recognition that a stable, resilient and quality ICT service which will provide modern, reliable, secure and cost effective technology underpins everything the council does and is critical to delivering the transformation agenda and realising potentially significant operational cost savings down the line.
51. However, this cannot be achieved without greater investment initially and on an on-going basis, regardless of the chosen solution. During 2016-17 it has been necessary to secure additional capacity and expertise to stabilise the service and support the transition to the new shared service, which has led to a net revenue budget pressure of £0.9m, after capital and HRA funding contributions are taken into account.
52. With regard to facilities management, the outturn position is marginally better than that forecast at month 8. As previously reported, the council has a considerable operational estate to which facilities management services must be delivered to ensure buildings are both compliant with health and safety regulations and maintained to a standard that enables staff to focus solely on delivering services.
53. Services are provided through two main suppliers, with the most recent contract coming on-stream in June 2016 following a lengthy procurement exercise. These contracts provide an enhanced level of compliance and consistency across the council's operational estate. Mobilising the new contract along with pressures arising from internal re-organisation inevitably had an impact on the delivery of other work streams, most notably technical support to a number of capital infrastructure projects. While in most instances these projects have been re-profiled, there was a consequent impact on the division's ability to generate the level of fee income predicated in the budget (£0.4m shortfall). Furthermore a number of savings were identified for implementation during 2016-17, some of which it was not possible to deliver and work continues to re-profile and refine these proposals such that the target can be achieved going forward.

Chief Executive's department

54. The Chief Executive Department's outturn was £4,646k against a revised net budget of £5,423k resulting in a favourable variance of £783k. This variance is mainly due to higher than budgeted planning fee income for the year. The department has implemented the proposed savings for the year.

Finance and Governance

55. The Finance and Governance Department outturn was £1.5m overspend prior to the application of reserves to bring the budget to a balanced position. The key adverse variance relates to £2.8m of redundancy costs across the service, of which £0.8m was covered through the utilisation of reserves, the remainder being covered by departmental underspend across the broader F&G budget within staffing and audit and risk professional fees.

Strategic Finance

56. As reported at month 8, a review of the council's minimum revenue provision was undertaken to provide future savings of £5.7m per annum with effect from 2017-18. Early implementation of the review outcomes in 2016-17 presented a windfall saving in year which has been used to offset other budget pressures.
57. In addition, other strategic finance budgets generated favourable variations of approximately £3.7m. These variations included reduction in insurance provision, better than expected treasury management returns and small grant variations.
58. The favourable variation has been used to both support in year pressures on departmental budgets and enabled the contribution from balances to support the 2017-18 budget to be set aside (£3.7m).

Savings

59. The £26.6m savings included in the 2016-17 budget have largely been achieved.

Contingency

60. The £4m contingency budget was fully utilised to offset Children's and Adults' services and No Recourse to Public Funds budget pressures as described above.

Enhanced voluntary severance

61. In order to mitigate the impact of funding reductions and the potential impact of the savings programme on staff, reductions on staff, the enhanced voluntary severance scheme was re-opened for a limited period in 2016-17.
62. The total cost of redundancy in 2016-17 was in the region of £12m. The majority of these costs were offset by reductions in salaries as and related costs and other savings within departments. The payback period for the enhanced voluntary severance scheme is calculated to be less than a year. Where the cost of the second year of the enhanced redundancy scheme was not able to be met within departments, the residual £5.264m was funded from the use of reserves as reflected in Table 1 and £2.180m was capitalised. The previous redundancy scheme was reported to cabinet as part of the 2015-16 outturn report.

Housing Revenue Account (HRA) Outturn 2016-17

63. The outturn for 2016-17 shows a marginal operating surplus of £0.3m after the movement

of earmarked balances to reserves and meeting in full the cost of severance and redundancy costs. This is in line with expectations and as previously reported. The key headlines are shown in the table and outlined below.

Table 2: HRA forecast outturn position for 2016-17

Housing Revenue Account Outturn 2016-17	Full Year Budget	Actual	Variance
	£m	£m	£m
Asset Management	49.1	53.1	4.0
Communities	9.4	8.1	-1.3
Resident Services	37.1	37.9	0.8
Customer Services	2.9	3.2	0.3
Central Services	115.2	91.7	-23.5
Revenue Contribution to HIP	24.2	48.5	24.3
Rent Income	-239.3	-240.3	-1.0
Total HRA before reserve movements	1.4	-2.2	
Use of reserves to support budget	1.4	-2.2	-3.6
Total HRA	0.0	0.0	0.0

64. Capital investment in the housing stock during 2016-17 was at a more sustainable level of £132.1m as the new QHIP (Quality Housing Investment Programme) programme geared up following the end of the Warm, Dry and Safe 5 year investment programme and a further £21m was spent on building new council homes. However, use of traditional funding sources such as capital receipts, S106 and RTB receipts were less accessible than anticipated requiring an additional revenue contribution from the HRA of £24.3m. As part of the financing package, a planned debt repayment was deferred and the budget switched to fund the Housing Investment Programme, thereby avoiding the need for further borrowing. In terms of HRA debt, the impact of this switch was neutral overall, leaving borrowing headroom virtually the same at £184.2m.
65. As part of 2015-16 accounts, it was necessary to make provision for water refunds to tenants following the Thames Water judgement in the High Court. During 2016-17 the council dealt with around 40,000 cases with a value of £21.2m (gross), £16.1m (net), with £4.1m being offset against tenant arrears. The cost of this was substantially covered by the provision and whilst the refund process will continue for some time, albeit on a much smaller scale, it has not been necessary to make any further provision in this year's accounts.
66. The need to spend on landlord responsibilities to repair, maintain and improve the housing stock remains high and consumes the greatest proportion of HRA resources. Overall, expenditure on the stock exceeded budget, but is to some extent distorted by the inclusion of £1.9m SBS trading deficit, which falls to the HRA as their primary client. In general all operational activities have been managed to within an acceptable budget tolerance despite increasing demand and expectations.
67. The cumulative residential rent debit raised (comprising areas, TMOs, estate voids and hostels used for temporary accommodation), was £1m higher than budget at £240.3m. This was largely due to a greater number of estate voids becoming available during the year than was originally estimated. Collection performance for the HRA overall was 98.25%, which is below target and demonstrates the detrimental impact of welfare benefit changes and direct payment.

68. Income from homeowners is also higher than budget, reflecting the unprecedented scale of investment in the housing stock in recent years, a proportion of which is rechargeable to homeowners under the terms of their leases. In total, £43.2m was raised against a budget of £34.6m, with collection performance at £39.8m, well above target. Whilst this represents a peak in billing, early indications are that this will not be repeated in 2017-18.
69. The ring-fenced nature of the HRA requires that surpluses/deficits are carried forward between years and at 31 March 2017 HRA reserves stand at £14.4m (against £16.6m in 2015-16), of which around two-thirds are specifically earmarked. The remainder is held as contingency against unforeseen events in line with the council's medium-term resource strategy. Given the size and complexity of the HRA and HIP, this is considered to be below the optimal level required and presents a moderate degree of risk, which will be closely monitored and managed going forward.

Dedicated Schools Grant

70. The DSG outturn position 2016-17 has been achieved after the use of £8.922m of ring fenced DSG reserves; this use of reserves was £5.922 higher than planned when originally setting budget agreed with the Schools Forum. However, the potential budget pressures had been recognised through a £3.5m contingency for high needs previously set aside within the existing DSG reserve (agreed by the schools forum). This was fully utilised to support the in year pressures in high needs and particularly for post 16 pupils.
71. The balance of the total call on reserves reflects adverse variances within the schools block mainly due to growth in school places in new free schools which are funded via the Dedicated Schools Grant.
72. With the significant use of DSG as part of 2016-17, the position going forward on the DSG will need special scrutiny and financial control. However there has been a planned transfer of funding from the schools block to the high needs block in 2017-18 to recognise ongoing pressures although this position will need to be monitored closely throughout the year.

Reserves

73. 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.
74. 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.
75. The budget approved by council for 2016-17 included a planned release of reserve of £6.170m. This call on reserves provided cushioning of the general fund budget during a period of significant funding reductions and service pressures. This call on reserves was made in full.
76. In 2016-17 £27.430m in total of reserves were utilised, resulting in revenue reserves opening balances of £55.742m for 2017-18. The call on these reserves includes the total

in Table 1 of £26.888m plus a further £0.542m NNDR reserve adjustment (which does not appear in this Table 1). The £26.888m reserve movement in Table 1 consists of:

- £8.830m was to support the budget adverse variance
- £18.058m utilisation of departmental reserves including DSG £8.922m draw down from the ring-fenced DSG reserve.

77. The total net movements in earmarked reserves for the key designations are set out below and further detail included in Appendix E.

78. Reserves are:

- **Corporate projects and priorities** reserves are held to fund those future activities that will enable the council to operate more efficiently and effectively. They include resources held to meet the cost of ongoing reorganisation and restructuring that the council must undertake to modernise and improve service levels and operational efficiency of the council's activities.
- **Service reviews and improvements** represent resources held that can be directly linked to services provided.
- **Capital programme and other capital investment** reserves are held to fund oneoff expenditure that may be incurred over more than one year and by its nature is not appropriate to be included within annual revenue budgets, to facilitate the significant regeneration and development taking place in the borough. Projects include the Elephant & Castle, Canada Water, Southwark Schools for the Future, land acquisitions and other significant one-off costs associated with these projects.
- **Strategic financing, technical liabilities and future financial risks** reserves are in the main held to mitigate future financial risks that may arise. Such risks include taxation risks, legislative and funding changes including actions involving the Greater London Authority and other government bodies, risks as a result of unavoidable changes in accounting practice, and circumstances inasmuch as they represent uninsured risks. They also include balances that are held for technical accounting reasons.

Collection fund

79. The Collection Fund represents the accumulated surplus or deficit for Business Rates and Council Tax. Both taxation schemes are designed to be self balancing; an estimate of any accumulated surplus or deficit is made each year and factored into the following year's tax requirement. In this way, most of the benefit or burden of any in-year variance is received or borne by taxpayers in the following year.

80. Monies received into the Collection Fund are distributed between the council and its preceptors based on their respective shares.

	Council Tax	Business Rates
Southwark Council	77.12%	30.0%
Greater London Authority	22.88%	20.0%
DCLG		50.0%

81. Whilst the Collection Fund is a single entity, for reporting purposes it is split between Council Tax and Business Rates. In-year performance is set out below (all figures are Southwark's share only).

82. **Council Tax** - The surplus carried forward is £5.6m, of which £2m has been factored into the tax setting for 2017-18. This surplus is attributed to continued growth in housebuilding, improvements in collection and reductions in discounts, exemptions and council tax

support.

83. **Business Rates** - The Business Rates element of the collection fund is now in surplus for the first time since the inception of the Business Rates Retention scheme in 2013. Southwark's 30% share of the accumulated position is £500k.

Implications for 2017-18 budget

84. The 2016-17 identified outturn pressures in Children's and Adults and Housing and Modernisation were recognised as part of the 2017-18 budget agreed. The budget set out a net increase in the Children's and Adults' budget of £5.3m and £2m growth for No Recourse to Public Funds. Further, the spring budget announced supplementary Improved Better Care Funding of £7.47m and the new Flexible Homelessness Support Grant. This is set out in more detail in the Policy and Resources Strategy 2017-18 and 2018-19 Updated Financial Remit report on this agenda. The 2017-18 budget assumed the implementation of £26.4m of savings across the council and the delivery of these savings will continue to be monitored.
85. The Policy and Resources Strategy report indicative resourcing for 2018-19 assumes that reserves will no longer be used to underwrite the budget. This reflects the reduced level of balances following the 2016-17 use of reserves.
86. Further, as set out in this report, the significant use of DSG reserves means that going forward; the budget will need to be under closer scrutiny. In 2017-18 and beyond, the school funding reforms present a number of risks such as the restrictions in the amount of the Early Years Block can be held centrally. This is currently used to support the early year's team, early help service and a subsidy to the three council run nurseries. The Policy and Resources Strategy 2017-18 and 2018-19 agenda item, Annex A provide further detail.

Treasury management

87. 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. In determining the suitability of potential investment decisions, the council prioritises the preservation of capital and liquidity of investments before the consideration of the yield on investments. In the year to 31 March 2017, the average investment balance was £188m (£238m for 2015-16) and the value at 31 March 2017 stood at £159m (£144m 31 March 2016).
88. The overall rate of return on investments during 2016-17 was 0.71% (0.77% 2015-16). As a comparison, the six month LIBID, which is a similar duration to that of the current treasury portfolio, averaged 0.60% throughout 2016-17. The surprise result of the UK referendum on EU membership led to a reduction in the Bank of England base rate, from 0.50% to 0.25%, and an expansion of the central bank asset purchase schemes. This policy change put downward pressure on short dated gilt and other market yields.
89. The average rate of interest for the council's debt portfolio is 5.5% as at 31 March 2017. This reflects the largely historical nature of the debt, the majority of which was drawn prior to 2008 at rates reflecting the prevailing economic conditions at the time. All external debt is from the Public Works Loans Board (PWLB) as part of HM Treasury at fixed rates. During 2016-17, £5m of debt principal matured and was repaid to PWLB. The remaining debt principal outstanding at 31 March 2017 was £458m (£463m as at 31 March 2016).
90. The debt management strategy for the council as part of the Treasury Management Strategy 2017-18 is to pursue a policy of internal borrowing, which is the use of existing reserves and balances to fund capital expenditure rather than the use of external borrowing.

91. The use of internal borrowing allows the council to minimise unnecessary external borrowing costs by only borrowing when needed for liquidity, or to benefit from advantageous borrowing rates. Borrowing in advance of need creates a 'cost of carry' which is the difference between the short term investment income from holding cash balances compared against longer term external debt financing costs.
92. All historical debt for the council has been drawn from the PWLB, however future borrowing could come from a variety of different sources. The UK Municipal Bond Agency (MBA) was established by the LGA as an alternative source of debt provision. The MBA plans to issue bonds to investors backed by a joint and several guarantee by all local authorities that have borrowed through the MBA. Aside from either the PWLB or the MBA, the council could borrow through other financial institutions and banks, or directly from other local authorities.

Community impact statement

93. 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: (copy and paste link into browser) 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: (copy and paste link into browser) http://moderngov.southwark.gov.uk/documents/s59180/Report%20HRA%20final%20rent%20setting%20and%20budget%20report.pdf		

APPENDICES

No.	Title
Appendix A	Budget Recovery Board
Appendix B	Interdepartmental movements to be approved for month 9 onwards
Appendix C	Analysis of Reserve Movements by Category
Appendix D	Analysis of Reserve Movements – withdrawals and additions
Appendix E	Total Movement in Earmarked Reserves from 2016-17 to 2017-18

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	
Version	Final	
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CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments sought	Comments included
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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