Item No. 8.	Classification: Open	Date: 17 September 2019	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy: revenue monitoring report, including treasury management 2019-20 (month 4)	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Victoria Mills, Finance, Performance and Brexit	

FOREWORD – COUNCILLOR VICTORIA MILLS, FINANCE, PERFORMANCE AND BREXIT

This is the first budget monitoring report of 2019-20 showing our position at the end of month 4 (July 2019) of the financial year. It is welcome that, with the exception of Dedicated Schools Grant (DSG), it is anticipated that in year revenue spending will be contained to an adverse variance of £0.260m against approved budgets.

The outturn for 2018-19 confirmed that the budget recovery work in Children's and Adults' Services has been effective in putting the service on a sustainable financial footing with the services coming in on budget after setting aside resources in an adult social care resilience reserve. This improved performance has continued in 2019-20, demonstrating improved practices have now been embedded as reflected in the latest forecast, which indicate a combined favourable variance of £29k anticipated at year-end. Notwithstanding this, the department remains exposed to significant risk and uncertainty in 2019-20 and beyond in managing the impacts of the continuing rise in demand and cost pressures within social care and this will be closely monitored throughout the financial year.

In Education, there are significant pressures on schools funding via the Dedicated Schools Grant with demand and cost pressures particularly acute on the high needs block, which largely stem from increased numbers of education, health and care plans (EHCPs). As at 31 March 2019, there was an accumulated deficit of £11.5m. This position is anticipated to deteriorate to an accumulated deficit of £17.5m by the end of the financial year. It is clear at a national level that there is now recognition that the quantum of funding is inadequate. Following the high levels of challenge and lobbying, along with representative bodies, government has now agreed additional funding for high needs. However, this may still fall short of the levels of funding required, and certainly will not be enough to pay down the accumulated deficit. The council continues to work with the Southwark Schools Forum on a deficit recovery plan, supported by the budget recovery board.

Elsewhere there remain areas of significant pressure, particularly in Temporary Accommodation. Whilst Southwark is recognised nationally as a leading authority in homelessness prevention, statutory and policy obligations, increasing demand and restricted housing supply mean that temporary accommodation remains a particularly challenging area. Budget growth of £3.2m (net) was approved for 2019-20, the latest forecast position gives rise to an adverse variance of £1.4m overall.

RECOMMENDATIONS

1. That the cabinet notes the General Fund forecast outturn position for 2019-20 (Table 1).

2. That the cabinet notes the key adverse variations and budget pressures underlying the forecast outturn position:
   - The Dedicated Schools Grant (DSG) forecast outturn position of a £6m deficit and the significant pressures on the High Needs Block (paragraphs 25-28)
   - The forecast budget pressures on Temporary Accommodation (paragraphs 34-36)
   - The forecast utilisation of £4m contingency to support the General Fund budget (paragraph 51)

3. That cabinet notes the Housing Revenue Account (HRA) forecast outturn position for 2019-20 (Table 2, paragraphs 52-61).

4. That cabinet notes the forecast movements of General Fund earmarked reserves (paragraphs 62-68).

5. That cabinet notes the update on the London Business Rate pool net financial benefits (paragraphs 69 to 70).

6. That cabinet notes treasury management activity to date in 2019-20 (paragraphs 71-79).

7. That cabinet note the interdepartmental General Fund budget movements that are less than £250k as shown in Appendix A.

BACKGROUND INFORMATION

8. The purpose of this report is to provide a forecast for the end of the financial year 2019-20, 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.

9. The council agreed a balanced General Fund budget of £290.425m on 27 February 2019 based on a 2.99% council tax increase. The Policy and Resources Strategy for 2019-20 assumed that no reserves would be used to underwrite the budget.

10. In 2018-19, after the utilisation of £7.404m of DSG reserve, the council was able to contribute £17.552m to General Fund reserves to mitigate future risks, fulfil commitments already made and to provide resources to support service transformation. The level of balances remains subject to the scrutiny of the Section 151 officer who must ensure that any one-off contributions to the budget are appropriate and affordable.

11. The council also approved budget decisions including reductions of £19.6m within the General Fund for 2019-20. Performance on achieving these savings is closely monitored and significant variances will be included in departmental narratives.

12. The cabinet agreed a balanced housing revenue account (HRA) budget on 22 January 2019.

KEY ISSUES FOR CONSIDERATION

General Fund overall forecast position

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

Table 1: General Fund forecast outturn position for 2019-20:

General fund	Original budget*	Budget movement	Revised budget	Forecast Spend in year	Variance before use of reserves	From (-) / to reserves	Total use of resources	Variance after use of reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Children's Services	60,979	-181	60,798	60,798	0	0	60,798	0
Adult Social Care	88,480	0	88,480	88,451	-29	0	88,451	-29
Commissioning	5,655	0	5,655	5,655	0	0	5,655	0
Education	26,617	-20	26,597	26,597	0	0	26,597	0
Total Children's and Adults' (excluding Dedicated Schools Grant)	**181,731**	**-201**	**181,530**	**181,501**	**-29**	**0**	**181,501**	**-29**
Environment and Leisure	68,157	0	68,157	68,274	117	0	68,274	117
Housing and Modernisation	68,947	0	68,947	69,152	205	-220	68,932	-15
Chief Executive's	3,435	0	3,435	3,435	0	0	3,435	0
Place and Wellbeing	-929	0	-929	-699	230	-230	-929	0
Finance and Governance	20,735	181	20,916	20,993	77	110	21,103	187
Strategic Finance	-14,891	0	-14,891	-14,891	0	0	-14,891	0
Support cost recharges	-40,740	0	-40,740	-40,740	0	0	-40,740	0
Contingency	4,000	0	4,000	4,000	0	0	4,000	0
Total General Fund services	**290,445**	**-20**	**290,425**	**291,025**	**600**	**-340**	**290,685**	**260**
Dedicated Schools Grant	-20	20	0	6,000	6,000	-6,000	0	0
Net revenue budget	**290,425**	**0**	**290,425**	**297,025**	**6,600**	**-6,340**	**290,685**	**260**

**Original budgets have been re-aligned to ensure consistency of service reporting*

14. As shown in Table 1, within services there is a forecast adverse variance of £0.260m after the utilisation of £0.340m of General Fund reserves. Over spending on the DSG is forecast at £6m, which will result in an increase in the accumulated deficit on the DSG reserve from £11.5m to £17.5m at the year-end.

Children's and Adults' services

15. Children's and Adults' are forecasting a small favourable variance of £29k on a gross expenditure budget of £228m. As has been previously reported, there are growing pressures on the Dedicated Schools Grant (DSG), which is ring-fenced, and council officers are working closely with Southwark Schools Forum to address this directly.

16. The Children and Families, Adult Social Care, Education and Commissioning divisions continue to build on the momentum achieved in recent years, with culture and practices now embedded, and this is reflected in the latest forecast. A combined favourable variance of £29k is anticipated at year-end.

17. The current forecast is the result of a sustained effort by departmental senior leadership to transform our approach to managing the services and budgets working very closely with Finance, HR, Legal and Procurement colleagues. This achievement is a considerable feat, both in contrast with many of our neighbours and despite ongoing austerity and a disjointed approach to health and social care by central government.

18. Adult Social Care teams have streamlined and adapted their approach to deliver high quality services, with good outcomes, within budget. This is the result of a wide-ranging collection of initiatives, held together in a clear vision and plan, and includes the re-alignment of care pathways and closer working with NHS and voluntary sector partners. The outcomes for local residents have improved and a recent Care Quality Commission (CQC) inspection of our community care services in partnership with Guy's and St Thomas' NHS Trust had an inspection outcome of "Outstanding".

19. The 2019-20 Better Care Fund (BCF) allocation was published by the Department of Health & Social Care in mid July 2019 and includes an increase in the minimum contribution to social care of £1.2m. Council and NHS CCG colleagues are reviewing our plans for the year and are required to submit our BCF plan for assurance by 27 September 2019. Delegated sign-off arrangements were approved by the Health & Wellbeing Board on 26 June 2019.

20. The financial position of Children and Families services remains stable and balanced despite facing sustained pressures in demand and new responsibilities which are not sufficiently funded by central government. This was referenced in the recently published isos partnership report commissioned by London Councils, 'Under Pressure: An exploration of demand and spending in children's social care and for children with special educational needs in London'.

21. The council is supporting more unaccompanied asylum seeking children than ever and the funding that we receive from central government remains inadequate. The gap between expenditure and grant funding grew to £1.4m in 2018-19. Additionally, the number of care leavers has risen with the increased statutory duties but the funding that central government have provided to meet these new duties is grossly inadequate.

22. The Children and Families division has worked hard to reduce residential placements with only 19 children currently cared for in residential placements.

Looked after children placements, whilst currently stable, can fluctuate with demand and some children can have significant needs with high costs associated.

23. There continue to be pressures in retention and recruitment of social workers and there is more to be done to support our workforce strategy, such as key-worker housing for social workers.

24. The Children's and Adults' Services department continues to monitor risk closely and to develop plans for 2020-21 and beyond. There is significant uncertainty surrounding the future of social care funding and despite central government announcing a series of financial 'sticking-plasters' in recent years, including the additional funds found in the recent Spending Review, we still have scant information regarding sustainable funding for social care beyond 2020-21. The long-overdue social care green paper is still awaited. It is increasingly frustrating that central government are expecting local authorities with social care responsibilities to undertake transformative change and closer integration with the NHS whilst failing to adequately fund the existing system, let alone provide a stable platform of investment from which meaningful change could be sustainably realised. At the time of writing we still have no indication of the future of the Better Care Fund (and Improved BCF), which now accounts for more than 25% of gross expenditure on adult social care.

Dedicated Schools Grant (DSG)

25. The DSG position was an £11.5m deficit at 31 March 2019. In year pressures on the high needs block are expected to be in the region of £6m and therefore the forecast position at 31 March 2020 is a £17.5m deficit. The Presidents of the Society of London Treasurers, the Society of County Treasurers and the Society of Municipal Treasurers wrote to the Secretary of State for Education on the matter of DSG deficits across the country in August 2019. This letter spelt out the scale of the funding shortfall across the country and illustrated the funding difficulties being experienced in Southwark are not unique. The council's Strategic Director of Finance and Governance, in his Section 151 statutory officer role, wrote to the Secretary of State in August 2019 specifically regarding the DSG in Southwark. Whilst additional funding for high needs has now been committed by the government, we remain cautious about whether this will be enough to cover current pressures and it will certainly not resolve the accumulated deficit.

26. The council is working closely with Southwark Schools Forum and has developed a draft DSG budget recovery plan which has been submitted to central government for review. We have made clear that without additional funding from central government for this ring-fenced grant it will not be possible to recover the DSG budget. Most notably the issues associated with the lack of funding for the special educational needs and disability (SEND) reforms introduced in September 2014 which has contributed to the bulk of the structural and accumulated deficit in the council, notably with regard to the growth in Education, Health and Care Plans (EHCPs) 0-25 and also the extension of the age range for SEND from 2-18 to 0-25 with no additional funding.

27. The pressures on the SEND home to school transport budget within the General Fund are largely related to the consequential impacts of the SEND reforms both in relation to growth in the 0-25 population and the extension of

duties to 19-25, and the lack of associated additional funding from central government.

28. The DSG continues to receive high challenge and high support through the Budget Recovery Board and also the review of recently appointed auditors, RSM.

Environment and Leisure

29. The Environment and Leisure department is projecting an unfavourable variance of £117k.

30. The unfavourable variance is mainly due to unbudgeted additional accommodation costs for operational vehicles and refuse containers. Close and robust monitoring is in place across the department to ensure this cost pressure can be contained within the overall departmental budgets.

31. The department has implemented various income generation and efficiency savings proposals towards the total of £3.9m as agreed by the council's 2019-20 budget setting process. However, some of the proposals have been delayed and yet to be implemented. This is being closely monitored and further updates will be reported to cabinet during the year.

Housing and Modernisation (H&M)

32. The budget process for 2019-20 recognised inherent cost pressures in key service areas within H&M through the approval of additional budget commitments. These are reflected in the outturn forecast and contribute to a broadly neutral position based on current activity/volumes and anticipated spending trends for the remainder of the year. It also includes planned movements in earmarked reserves and provisional sums for severance, redundancy and ill health retirement. The key headlines are as outlined below.

Communities - No Recourse to Public Funds (NRPF)

33. Demand in this area has consistently exceeded the budgeted resources over a number of years, but has been declining in cash terms from a peak of £8.1m in 2016-17 to £6.9m in 2018-19. Significant progress has been made in managing and reducing caseload and costs whilst meeting the needs of eligible clients seeking assistance. The period to July reveals some conflicting statistical data, with supported case numbers up 8% since April (290 vs 269), but average monthly spend around 15% lower than the monthly average for 2018-19, which is in large part due to lower temporary accommodation costs. At this point, expenditure is forecast to be £6.6m against the full year budget of £7m. Given the propensity for demand volatility, coupled with uncertainty around a no-deal Brexit and its potential impact on European economic area (EEA) nationals who have not yet registered with the UK Government's EU Settlement Scheme, this cautions against a more optimistic forecast at this stage.

Customer Services - Temporary Accommodation (TA) and Housing Solutions

34. Southwark is recognised nationally as a leading authority on homeless prevention but the cost of TA is one the council's most intractable budget pressures. The service has managed 691 homeless preventions during the first

quarter of 2019-20 and TA net caseload numbers are showing early signs of stabilising and even some minor reduction.

35. Budget growth of £3.2m (net) was approved for 2019-20, which was predicated on a saving of £2m following key policy changes in relation to the discharge of duty into the private sector and out of borough being adopted in advance of the start of the financial year. However, a delayed implementation has impacted achievement of the savings which are now estimated to be around £0.4m, plus some additional grant funding which gives rise to an adverse variance of £1.4m overall. This is a relatively cautious estimate at this point and could improve, but as also noted above for NRPF, the risk of demand volatility and supply side cost pressure remain.

36. Looking forward, were further caseload/cost reductions to be realised, it would start to move the spending pressure closer to or within budget and obviate the need for further growth, but realistically, that is likely to be the best scenario achievable in the short to medium-term, whilst the prospect of making budget savings remains remote.

Customer Services – Concessionary Travel (including Blue Badges)

37. The cost of the concessionary scheme is determined by Transport for London (TFL) based on volumes and usage which have been decreasing over time. In addition, changes to the eligibility threshold from age 60 to 65 have also substantially reduced the cost of provision, which was not fully captured in the budget estimates for 2019-20. The outturn is currently forecast to be around £0.6m lower than budget, net of some expected budget pressure on Blue Badges arising from the recent introduction of additional qualifying criteria for clients with hidden disabilities, which is anticipated will drive an increase in caseload. Both of these areas will be subject to revision for 2020-21 budget setting.

Modernise – Shared Information and Communication Technology Service (SICTS)

38. There are a number of major projects currently in delivery and new projects in development; not least the proposed data centre migration to a cloud computing environment (Azure). Proposals are also being formulated to change the current operating model to ensure tangible improvements in service delivery are achieved in timescale and budget. The impending appointment of a permanent managing director to oversee the SICTS is critical to improving strategic planning and governance and operational resilience going forward.

39. As previously reported, 2018-19 was the first full operating year for the SICTS and transitioning to the new arrangements was challenging both operationally and administratively. Year-end accounts were closed on an estimated accruals basis and legacy accounting issues have delayed final settlement with Brent. Quarter 3 and 4 accounts are currently being reviewed against the original financial operating model. Similarly, the first quarter account for 2019-20 is awaiting review. Revised financial monitoring arrangements at the SICTS should assist in the providing greater visibility and financial control going forward. At this juncture the outturn position is shown to be in line with the original financial model, but this needs to be heavily caveated given the uncertainty in relation to the future quantum of resources required, the relative

balance between revenue and capital and the planned timeline and spend profile.

Modernise - Corporate Facilities Management (CFM)

40. CFM manages the council's operational estate to ensure that buildings are compliant with health and safety regulations and fit for purpose for both staff and service users. While some services are delivered in house, the majority are delivered through two external contracts which are scheduled to co-terminate in March 2021. The re-procurement is complex and the timeline has been extended and requires additional support to deliver the strategic vision for FM services going forward. Budget commitments agreed previously have helped to stabilise the budget which is reflected in the current forecast which is broadly neutral at this point.

Modernise - Human Resources (HR)

41. HR administers and manages the Comensura contract for the provision of interim staff across the council. Whilst usage/costs are variable and subject to changing circumstances, volumes remain higher than target, which is reflected in both higher expenditure across the council (in lieu of permanent employee costs) and higher management fee income within HR, currently prudently estimated at £0.4m. The service continues to implement measures to reduce agency usage through more robust workforce planning and recruitment to long-standing vacancies which will over time result in lower agency expenditure and consequently the level of fee income will move back within budget.

42. Given the ever-changing operational demands of the department, restructuring will inevitably continue to better align resources with activity and deliver service improvements for our residents. Restructuring costs are deemed to be a first call against any divisional/departmental underspend and provisional sums have been included in the forecast.

Chief Executive's department

43. The Chief Executive's department is forecasting a balanced budget outturn for 2019-20 at this stage. The budgets are being monitored closely and any changes to this projected outturn position will be reported at the next revenue monitor report to cabinet.

Place and Wellbeing

44. The projected outturn for the Place and Wellbeing department is a balanced budget outturn after the transfer of £230k projected overspends on the ring-fenced public health grant.

45. The unfavourable variance of £230k on the public health grant is mainly due to the £300k unachievable savings expected on the sexual health budgets arising from the demand led activity costs. Management are currently reviewing mitigating actions to contain this cost pressure within the overall Public Health budget.

46. The Place and Wellbeing department excluding Public Health is expected to achieve £250k of the £332k budgeted savings agreed as part of the 2019-20 budget process. Public Health is currently projecting to achieve £625k of the

£925k budget savings for 2019-20. This position is being closely monitored and further updates will be reported to cabinet during the year.

Finance and Governance

47. Finance and Governance is reporting an overspend of £187k for the 2019-20 financial year. Continued government delays in the migration of local benefits to universal credit led to benefit caseloads remaining with the council exceeding prior forecasts. This has necessitated an increase in staffing numbers to manage this caseload efficiently leading to above budget staffing costs. The uncertainty surrounding the pace of this transition has hampered the council's ability to plan effectively.

48. The possibility of a national poll associated with Brexit uncertainty, at short notice, has led to an ongoing need for planning for the administering of a vote with short notice. These additional financial pressures have been partially offset by other staffing vacancies within the department.

Strategic Finance

49. Strategic Finance is forecasting a balanced budget outturn for 2019-20 at this stage. The budgets are being monitored closely and any changes to this projected outturn position will be reported at the next revenue monitor report to cabinet.

Contingency

50. It is anticipated that the contingency budget will be fully utilised to meet existing and potential pressures within the 2019-20 General Fund budget.

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

51. As part of the budget setting process for 2019-20, £19.6m efficiencies, income generation and savings proposals were agreed. At this point, it is anticipated that in the majority of cases where savings are at risk of not 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)

52. **Table 2: HRA forecast outturn position for 2019-20:**

Division/Activity	Full Year Budget £000	Outturn £000	Variance £000
Asset Management Division	48,368	53,489	5,121
New Build Division	468	468	0
Communities Division	8,957	9,074	117
Resident Services Division	38,140	39,793	1,653
Customer Services Division	8,933	8,709	-224
Exchequer Services Division	8,138	8,061	-77
Central Services	31,154	27,698	-3,456
Capital Financing	33,254	29,054	-4,200

Division/Activity	Full Year Budget £000	Outturn £000	Variance £000
Depreciation	53,000	53,000	0
CERA	18,745	18,745	0
Tenant's Rents & Service Charges	-217,889	-219,467	-1,578
Homeowner Service Charges	-31,268	-28,024	3,244
Appropriations to/from Reserves	0	-600	-600
Total HRA	**0**	**0**	**0**

53. The outturn forecast incorporates a number of known budget pressures and commitments that cannot be fully quantified at this juncture and should therefore be viewed with caution. The forecast will be kept under close review and changes will be reported in subsequent monitoring reports. The underlying position is a negative variance and is currently assumed to be met through a combination of one-off underspends and budget movements, principally capital financing, provisions and earmarked reserves and rent income to ensure a balanced position by year-end.

54. The repair, maintenance and renewal of the housing stock consumes the greatest proportion of operating resources and control of high volume, high value contracts is critical in delivering greater value for money. Responsive R&M and engineering budgets remain under severe pressure, particularly the district heating network, where aging infrastructure is problematic and requires significant capital investment over a sustained period. Void turnover, both mainstream voids and estate voids for temporary accommodation use (reflected in Resident Services), are running at a higher rate than originally predicated giving rise to additional cost and loss of income.

55. Whilst in the short-term some of these pressures are able to be mitigated by capitalising a higher amount of eligible works expenditure, it is not a long-term sustainable solution, without re-profiling the programme over a longer timeframe. However, based on current forecasts it is anticipated that the budgeted level of depreciation and revenue support (CERA) for the investment programme can be maintained (as a minimum).

56. The 2018-19 outturn report (June 2018 Cabinet), outlined the financial impact of in-sourcing the housing repairs service to Southwark Building Services (SBS). Moving into 2019-20, much remains to be done to embed the new working practices to achieve greater operational efficiency and cost reductions through the price per property (PPP) and void equivalent (PPV) cost models. Financial and performance targets are not yet being achieved as predicated in the business model, leading to an estimated trading deficit of £2.7m chargeable to the HRA (of which £0.6m is one-off transition costs to be funded from reserves). Whilst action is being taken to address the position, risks remain particularly around the negotiation and implementation of new terms and conditions for the workforce. At this point it is likely that the in-house repairs service will require further growth in the HRA over and above that already budgeted this year, which will be addressed as part of budget setting for 2020-21.

57. Given the self-financing nature of the HRA, rental and other income streams are of paramount importance for the long-term sustainability of the HRA business plan. Since 2012 there has been a succession of changes in

government policy, culminating in the imposition of the 1% rent reduction over the last four years, which has reduced the financial flexibility within the HRA to maintain and invest in the housing stock as originally envisaged. For 2020-21, rent increases can revert to September CPI+1%, subject to cabinet approval.

58. Gross rent debit raised, void loss and collection rates are all key indicators of performance and are closely monitored throughout the year. Overall, the cumulative position is tracking around £1.6m higher than target, which amongst other things reflects the fact that 2019-20 is a 53 week rent year, lower RTB activity than estimated and the realisation of new council properties coming in to the stock as part of the council's commitment to build 11,000 new homes. In terms of collection performance, this continues to show sustained improvement notwithstanding the greater collection difficulties inherent in Universal Credit and direct payment of benefits. The HRA maintains a prudent level of provisions to meet collection losses/write-offs. It is estimated that the full budgetary provision will not be required this year so can be used to mitigate budget pressures mentioned elsewhere.

59. Homeowner service charges represent the second largest income stream to the HRA and costs are fully recoverable under the terms of their lease in order to prevent cross-subsidy with tenants. The value of rechargeable capital works is linked to the investment programme and type of works being undertaken and the unprecedented level of investment in recent years (primarily through WDS) has been reflected in higher homeowner billing which has been recycled back into the HIP. More recently however, with QHIP, the value of recoverable works has not been of the same magnitude and the budget has been adjusted to reflect anticipated activity. This remains the case for 2019-20, which is forecast to be around £0.5m lower on revenue, £2.5m, lower on capital and £0.3m lower in fee income as RTB activity continues to decline. Development of a more linear work programme would greatly assist in mitigating the peaks and troughs in the income profile experienced over recent years.

60. Central Services comprises non-operational service specific budgets such as departmental and corporate overheads, capital financing, major projects, CERA, depreciation and provisions. Given the budget pressures outlined, decisions in relation to the repayment of debt are held in abeyance pending greater clarity on the capital programme financing requirement. Unlike the general fund, there is no requirement to make a minimum revenue provision (MRP) in the HRA which provides some flexibility to manage budgets across the piece and mitigate exceptional demands and cost pressures as they arise. In the short term, this in no way compromises the ability to meet the costs of higher borrowing to support the new homes programme, subject to the provisions of the Local, Government Act 2003 which requires authorities to have due regard to the CIPFA's 'Prudential Code', when determining how much it can prudently afford to borrow.

61. In the same way as the council's general fund, the HRA holds reserves for specific purposes and as contingency against operational deficits, unforeseen events and to mitigate future risks in line with the council's medium-term resource strategy (MTRS). At 31 March 2019 earmarked reserves stood at £20.8m (previously £19.9m in 2017-18). The gradual upward movement is to be welcomed, but in the context of the size of the council's HRA and HIP, reserves remain below the optimal level considered prudent and represent a moderate degree of risk. This will be managed over the medium-term with a view to building a greater level of sustainability going forward. The forecast

currently assumes a drawdown of £0.6m to meet one-off transition costs arising from the in-house repairs function.

Reserves

62. The council retains a level of earmarked reserves and these are reported each year within the annual statement of accounts.

63. 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

64. Reserves are categorised as:
    - Corporate projects and priorities - reserves 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 improvements - represent resources held that can be directly linked to services provided
    - Capital investment - reserves held to fund one off expenditure that may be incurred over more than one year and by its nature is not appropriate to be included within annual revenue budgets, to facilitate the significant regeneration and development taking place in the borough. Projects include the Elephant & Castle, Canada Water, Southwark Schools for the Future, land acquisitions and other significant one-off costs associated with these projects
    - Strategic financing risk - reserves held to mitigate and manage future financial risks. Such risks include legislative and funding changes as well as the additional risk arising from increased reliance on local taxation, e.g. business rate retention growth
    - Technical liabilities and smoothing – reserves held in respect of uninsured risks, risks arising as a result of unavoidable changes in accounting practice, equalisation of liabilities where costs are likely to vary year to year.

65. 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. Further, opportunities will be sought to reduce the call on reserves through capitalisation of costs as appropriate.

66. The budget approved by council for 2019-20 included no planned release of reserves. As the year progresses, 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 2019-20 will be monitored.

67. The level of reserves will need to be kept under close review. In 2018-19, after the utilisation of £7.404m of DSG reserve, the council was prudently able to contribute £17.552m to reserves. Looking forward to 2020-21 and beyond the council is entering a period of considerable financial uncertainty. It is vital that the council enters this period with sufficient reserves to mitigate and manage funding shocks and financial risks and to ensure a smooth transition over the forthcoming medium term financial planning period.

68. The forecast level of revenue reserves in 2019-20 are set out below, illustrating an anticipated net reduction in reserves of £6.6m by the end of the financial year.

Table 3: General Fund forecast revenue reserves 2019-20

	2019-20 opening balance £000	From(-)/to reserves £000	Forecast Budget variance £000	Total Movement £000	Forecast closing balance £000
Corporate projects and priorities	9,137	0	0	0	9,137
Service improvement	17,096	-110	0	-110	16,986
Strategic financing risk	36,450	0	-260	-260	36,190
Technical liabilities and smoothing	27,940	0	0	0	27,940
Total	**90,623**	**-110**	**-260**	**-370**	**90,253**
Public Health Grant	-1,721	-230	0	-230	-1,951
Dedicated Schools Grant	-11,515	-6,000	0	-6,000	-17,515
Total	**77,387**	**-6,340**	**-260**	**-6,600**	**70,787**

NB the above table excludes capital investment reserves totalling £23.418m.

London business rates pool

69. The 2018-19 local government finance settlement confirmed that London Councils would pilot arrangement for the retention of 100% business rate growth through pooling. The pooling arrangements continued in 2019-20, albeit on a less generous 75% retention basis and with more risk passed to councils. This included facilitating collective investment through a ‘strategic investment pot’ designed to promote economic growth and lever additional investment funding from other sources.

70. Any additional business rates income received as part of the pooling arrangement for 2019-20 will be one-off. The initial estimate of (one-off) growth is £4.8m, pending final reconciliation and calculation of the final growth/decline for the pool as a whole.

Treasury management

71. As at 30 June 2019 the outstanding debt held by the council was £644m, a decrease from £677m as at 31 March 2019, reflecting scheduled repayment of short term loans from other local authorities.

72. During the financial year to 31 March 2019 the council borrowed £117m from the Public Works Loans Board, as part of HM Treasury, in 13 separate loans at an average interest rate of 2.49%.

73. Drawing of long term borrowing has been supplemented by a continuation of short term borrowing from other local authorities to reduce the overall debt interest expense for the council. The level of short term borrowing from other local authorities as at 30 June stood at £90m.

74. Projections for approved capital expenditure and cash flows indicate that the council may need to borrow up to £130m during 2019-20 bringing the total of new long term borrowing up to £250m by March 2020.

75. The council maintains sizable investment balances, representing income received in advance of expenditure plus balances and reserves held. Investments as at 30 June 2019 were £147m (£126m at 31 March 2019).

76. Council resources that are not immediately required for current expenditure are invested in money market instruments in accordance with the MHCLG Guidance on Local Authority Investments and the approved Investment Strategy. The MHCLG guidance gives priority to security and liquidity and the council's aim is to achieve a yield commensurate with these principles.

77. The annualised rate of return for council treasury management assets for the first quarter of 2019-20 financial year was 0.94%.

78. To assess the treasury management portfolio performance, the council measures the return against a composite investment benchmark of three month LIBID and one to three year gilt index. For the equivalent period of the financial year the benchmark index annualised return was 0.76% indicating an outperformance of the council portfolio versus the benchmark.

79. The rate of investment return generated by the treasury management portfolio is a consequence of the council's prudent, low risk approach to treasury management investing. This is in line with the requirements of the statutory guidance for local government treasury investment issued by MHCLG.

Community impact statement

80. This report monitors expenditure on council services, compared to the planned general fund budget agreed in February 2019, and HRA budget agreed in January 2019. 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 Strategy 2019-20 – revenue budget: Council Assembly 27-02-2019	160 Tooley Street PO Box 64529 London SE1P 5LX	Rob Woollatt 0207 525 0614
Link: http://moderngov.southwark.gov.uk/documents/s80705/Report%20Policy%20and%20Resources%20Strategy.pdf		
Housing Revenue Account: Final Rent-Setting and Budget Report 2019-20: Cabinet 22/01/2019	160 Tooley Street PO Box 64529 London SE1P 5LX	Ian Young 020 7525 7849
Link: http://moderngov.southwark.gov.uk/documents/s79784/Report%20Housing%20Revenue%20Account%20Final%20Rent-Setting%20and%20Budget%20Report%202019-20.pdf		
Capital Strategy and Treasury Management Strategy 2019-20: Council Assembly 27-02-2019	160 Tooley Street PO Box 64529 London SE1P 5LX	Rob Woollatt 0207 525 0614
Link: http://moderngov.southwark.gov.uk/documents/s80714/Report%20Capital%20and%20Treasury%20Management%20Strategy%202019-20.pdf		

APPENDICES

No.	Title
Appendix A	Interdepartmental budget movements months 1 to 4

AUDIT TRAIL

Cabinet member	Councillor Victoria Mills, Finance, Performance and Brexit	
Lead officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report author	Rob Woollatt, Departmental Finance Manager	
Version	Final	
Dated	5 September 2019	
Key Decision?	No	
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
Date final report sent to constitutional team		5 September 2019

APPENDIX A

Appendix A - Interdepartmental budget movements months 1 to 4

Interdepartmental movements to be noted for months 1 to 4

Department From	Amount £	Department to	Amount £	Description of the budget movement
Children's and adults'	(181,212)	Finance and governance	181,212	Budget transfer for children's services employees