Item No. 8.	Classification Open	Date: 14 September 2021	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy: revenue monitoring report, including treasury management 2020-21 (month 4)	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Rebecca Lury, Finance, Performance and Democracy	

FOREWORD – COUNCILLOR REBECCA LURY, FINANCE, PERFORMANCE AND DEMOCRACY

Covid-19 continues to be an issue of concern for the Borough, and whilst Government has made some financial contribution, as they suggest that things are returning to 'the new normal' Council's will be left to bear the ongoing financial burden.

In putting our residents first, we will continue to face additional costs which we believe are necessary to ensure that our those who live and work in our Borough are being supported. We are also continuing to see planned savings delayed or cancelled, and there are significant ongoing pressures from lost income through fees and charges that will have long-term ramifications.

Alongside this, as our residents and businesses face increased pressures, this has a knock-on impact on our Borough, with reductions in tax collection in both council tax and business rates.

We continue to push government to provide the financial support that we need as a Borough to continue to mitigate against Covid-19 pressures, but this uncertainty about the levels of support we will receive makes it difficult for us to make a definitive assessment of the full financial impact on the Council.

We expect to see continued pressures from lost income in Environment and Leisure, and increasing pressures on our Temporary Accommodation budget, which we only expect to increase as the financial implications of Covid-19 on employment and personal circumstances of our residents emerges.

There is also the emerging concern of the financial viability of a number of maintained schools in the Borough, and officers and Councillors are working together to keep a close eye on this and introduce mitigation measures as necessary.

Without Covid-19 having the impact that it has, as can be seen in this report, our financial situation would be significantly different, and whilst we will always prioritise supporting our Borough, it cannot be the case that local authorities are having to take such a significant financial hit at this time. We will therefore continue to lobby national government to make good on their promise to councils that they would cover the cost of additional council spending required to support people through COVID-19, not just those things that it has asked councils to do.

RECOMMENDATIONS

That the cabinet notes:

1. The General Fund forecast outturn position for 2021-22 (Table 1).

2. The COVID-19 emergency funding support received to date (paragraphs 18 - 22).

3. The government's COVID-19 Sales, Fees and Charges compensation scheme (paragraph 19), and that the scheme only part funds the actual losses incurred.

4. That the cabinet notes the other key adverse variations and budget pressures underlying the forecast outturn position, notably:

   - Temporary Accommodation pressure of £6.9m after use of reserves.

5. That cabinet notes the Housing Revenue Account (HRA) forecast outturn position for 2021-22 (Table 2, paragraphs 58 - 65).

6. That cabinet note that there is currently no compensation for the HRA for additional costs or lost income arising from the pandemic;

7. That cabinet notes treasury management activity to date in 2021-22 (paragraphs 71 - 78).

8. That cabinet approve the interdepartmental General Fund budget movements as shown in Appendix 1.

BACKGROUND INFORMATION

9. The council agreed a balanced General Fund budget of £293.120m on 24 February 2021 based on a 4.99% council tax increase. The Policy and Resources Strategy for 2021-22 assumed that a one-off contribution of £5.8m reserves would be used to underwrite the budget.

10. The council also approved budget decisions which included reductions of £14.3m within the General Fund for 2021-22. Performance on achieving these savings is closely monitored and significant variances will be included in departmental narratives.

11. In 2020-21, after the utilisation of £2.1m of DSG reserve, the council was able to contribute £4.1m to General Fund reserves to mitigate future risks, fulfil commitments already made and to provide resources to support service transformation. In addition to this, a further £53.4m in specific COVID-19 reserves was set aside, primarily to account for timing differences on central government compensation for collection fund losses. 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.

12. The cabinet agreed a balanced housing revenue account (HRA) budget on 19 January 2021.

KEY ISSUES FOR CONSIDERATION

General Fund overall forecast position

13. Although circumstances in September 2021 are in some ways very different to those a year ago, the high level of uncertainty remains a constant. At the time of writing it remains difficult to predict the financial impact of the release from lockdown in June, the withdrawal of the furlough scheme in September and the cessation of the £20 uplift in Universal Credit. This makes it challenging to plan ahead, both in the short term and as we look forwards to renewal. The forecasts included below incorporate the latest information available and officers will continue to update these as and when new data becomes available.

14. Table 1 below shows the current forecast outturn position by department. The council is forecasting an overspend on the General Fund of £4.6m after application of the Government's Emergency COVID-19 Funding and contingency budget of £4.0m.

15. The overall forecast position is particularly sensitive to any changes in central government funding and to the economic impact of central government policies in response to COVID-19. Given the significant uncertainty attached to these factors and the pace of policy change, the range of possible year-end positions is far wider than in previous years. The forecast presented at table 1 represents the 'most likely' scenario at this time given the limited commitment to additional funding from central government to date. This situation will continue to be monitored over the coming months and the full extent of COVID-19 pressures will be reported to MHCLG each month. Audit, Governance and Standards Committee will also continue to receive updates at each meeting.

16. Notably, the ring-fenced DSG account is forecasting a balanced position for the first time in several years (detail in departmental narrative below). However, this still leaves a £21.7m accumulated deficit on the balance sheet and officers continue to lobby central government for resources to tackle this.

Table 1: General Fund forecast outturn position for 2021-22:

General fund	Original budget	Budget movement	Revised budget	Forecast Spend in year	Variance before use of reserves	Planned movement in reserves	Total use of resources	Variance after use of reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Children's services	65,440	-	65,440	66,748	1,308	-	66,748	1,308
Adult social care	86,236	-	86,236	84,242	(1,994)	-	84,242	(1,994)
Commissioning	4,629	-	4,629	5,084	455	-	5,084	455
Education	21,312	(2,742)	18,570	19,418	848	-	19,418	848
Total children's and adults' (excl. Dedicated Schools Grant)	**177,618**	**(2,742)**	**174,876**	**175,492**	**617**	**-**	**175,492**	**617**
Environment and leisure	87,811	-	87,811	90,950	3,139	-	90,950	3,139
Housing and modernisation	61,168	(1,309)	59,859	68,795	8,935	(736)	68,059	8,200
Chief executive's	(302)	1,309	1,007	4,985	3,978	(494)	4,491	3,484
Finance and governance	20,669	-	20,669	23,744	3,075	(174)	23,570	2,901
Strategic finance	(16,512)	2,742	(13,770)	(13,527)	243	-	(13,527)	243
Support cost recharges	(41,332)	-	(41,332)	(41,332)	-	-	(41,332)	-
Contingency	4,000	-	4,000	4,000	-	-	4,000	-
Total General Fund services	**293,121**	**-**	**293,121**	**313,107**	**19,987**	**(1,404)**	**311,703**	**18,583**
COVID-19 Funding Received	-	-	-	(14,003)	(14,003)	-	(14,003)	(14,003)
Total General Fund services	**293,121**	**-**	**293,121**	**299,104**	**5,984**	**(1,404)**	**297,700**	**4,580**
Dedicated Schools Grant	-	-	-	-	-	-	-	-
Net revenue budget	**293,121**	**-**	**293,121**	**299,104**	**5,984**	**(1,404)**	**297,700**	**4,580**

17. 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. Management actions are ongoing to continue to address all budget pressures, including those related to COVID-19.

COVID-19 Government support

18. The government have announced one tranche of general support funding for 2021-22. Southwark's allocation is £11.4m, which was designated to support quarter 1 (April to June 2021). The MHCLG returns in June and July 2021 requested data for quarter 2 (July to September 2021) for which funding, if any, is yet to be announced. It is expected that councils will receive further general or specific grants to

support any further costs or income losses as a result of the pandemic, in quarter 2 (July to September 2021) and beyond.

19. The council will also submit a claim for income losses in Sales, Fees and Charges (SFC) in 2021-22. The overall claim is estimated to be £2.4m on losses of £4.0m, amounting to 59% of losses rather than the headline figure of 75%. Extension of this scheme past June will depend upon the progress of the government's plans for easing lockdown and any consequent additional funding for local government. The council's full year estimate of potential losses is £13.8m.

20. Detailed reporting, including analysis of the extent to which additional costs and lost income have been compensated by central government, is presented to the Audit, Governance and Standards Committee each time it meets.

21. With respect to Collection Fund losses, the government has announced that they will fund a proportion. Residual losses will be permitted to be spread over three financial years from 2021-22.

22. In addition to the emergency funding and SFC compensation, the government has also made available other targeted funding including COMF, Rough Sleeping funding and additional monies for Local Council Tax Support.

Departmental Monitoring Information

Children's and Adults' services

23. This is another challenging year for Children's and Adults Services. The combined effect of the pandemic, Brexit and general economic uncertainty created a very challenging environment. The department is expected to finish the year with a small adverse variance of £0.6m before any MHCLG grant is applied. It is expected that MHCLG grant will fully offset this pressure. The key areas of concern are children's social care due to continuing pressures in staffing and the pressures within schools finance and falling rolls. There have been significant savings built into the budget which might be challenging to achieve in the current uncertain environment.

24. The ring –fenced Dedicated Schools Grant (DSG) is expected to achieve a break even position for first time in a number of years despite growing pressures in demand and uncertainties around COVID-19.

Adults Social Care

25. The Adult Social Care division has started the year with a forecast of a favourable variance. This is a continuation of a number of year's favourable financial performance. This forecast takes into account specific COVID-19 funding, including the reimbursement of additional

hospital discharge and admittance avoidance costs of approx. £1.5m. This funding was first announced in March 2020 and now has been extended until end of September 2021 and is expected to ensure there is sufficient bed capacity in the hospitals to deal with the pandemic.

26. The division is continuing to be affected by the pandemic especially within care packages expenditure such as homecare, nursing and residential. The underlying COVID-19 related pressure within Adult social care for the financial year is around £4.5m which includes placements, hospital discharge costs, loss of client income, legal and staffing related costs. It is expected that this financial year these additional costs will be covered by additional government funding. The division has continued to support the provider market through additional payments such as infection control and rapid response fund payments.

27. Key medium to long term financial concerns include the effect the pandemic had on the general hardship for families as it creates increased difficulties for local authorities to achieve their income targets and will lead to more reliance on council's services. Adult social care has been affected by the combined effect of the pandemic and Brexit that lead to above inflationary increases of placement costs in most areas. This trend likely to continue and expected to cause further financial pressures in the future.

28. The division will continue to ensure strict financial measures are in place as the post COVID-19 environment might lead to risk of increased expenditure in some service areas such as increased levels of disability due to longer than usual periods of hospitalisation and delays in seeking medical attention for other conditions during lockdown.

Children's Social Care

29. The division has worked very hard to minimise the impact of the COVID-19 pandemic. At Month 4 the division is forecasting an adverse variance of £1.3m before any COVID-19 related government funding has been applied. This forecast is a significant improvement on the previous year's outturn and includes around £1m of COVID-19 related pressure. The underlying key cost drivers within the division are staffing and placements. There has been a trend of reduced placements costs in some areas that resulted in a forecast that is lower than last year's outturn. However the service is continuing to be severely affected by the shortage in the supply of children's social workers. This has been an issue over a number of years at a national level and results in greater than desirable reliance on agency workers. The cost of agency staff is approximately 20% more than permanent staff which causes financial concerns for the division. In order to mitigate this the service is concentrating on developing initiatives to ensure that the recruitment and retention approach is as attractive as possible. However, it seems likely that without greater progress at a national level it will be difficult to fully resolve this in the short term.

Commissioning

30. The Commissioning division was expected to achieve a balanced position this financial year however delays in restructuring have resulted in continuing use of agency staff which mainly drives the adverse variance for 2021-22. The directorate is working on reducing the use of agency staff and to establish a permanent staffing structure that will be able to support the needs of the department.

Education

31. The Education service remains under pressure and is forecasting an adverse variance of £0.8m before any COVID-19 related support has been applied. The key driver of this pressure is continuing to be the home to school transport. The COVID-19 pandemic has created additional financial strains on the service as the application of the necessary social distancing measures led to increased costs as well as negative impact on savings targets embedded within the budget. Officers within the service and in finance will monitor this area of the budget closely and work with providers to deliver the service as safely, efficiently and economically as possible. The service has continued to provide additional support to all schools and supported children and families with and enhanced Free School Meals offer during school holidays.

Dedicated School Grant

32. The DSG is expected to be in a balanced position in 2021-22 for the first time in a number of years. This means the deficit position on the balance sheet is expected to remain at the 2020-21 closing level of £21.7m. The council has been in correspondence with the Department for Education (DFE) and Education and Skills Funding Agency (ESFA) about the support required to deal with the accumulated deficit. The issue is not a new one, nor is it just a local one and lobbying continues through both local and national Education and Finance directors' representative bodies.

33. The High needs block remains the main risk area of the DSG. In order to be able to achieve the forecast in-year balanced position officers continue to pursue savings and efficiencies against the High Needs Block and in particular through commissioning work focussed on Independent Non-Maintained Special Schools and Alternative Provision. However the achievement of the balanced in-year position will be affected by the fluctuations in demand for EHCP's as this is a highly demand-led service area.

34. There is also a growing concern within the service and finance that a number of maintained schools are experiencing increasing financial difficulties. This is mainly due to the continued falling rolls which have been experienced across all London boroughs. Officers from the council

are working together with the schools to ensure robust plans are in place to improve their financial situation.

Environment and Leisure

35. Allowing for COVID-19 pressures, the department is projecting an adverse variance of £3.139m, which equates to a favourable variance of £1.558m if those pressures are excluded.

36. The total impact of the COVID-19 budget pressure identified in the department is £5.976m comprising of lost income and additional costs with the main areas being local authority compliance and enforcement activities of £1.3m in Regulatory Services, Parking Services of £2.4m, Markets and Network Management of £510k, Housing Enforcement of £600k due to the delayed implementation of new scheme and Wardens of 230k.

37. Allocation of £1.280m from the Contain Outbreak Management Fund grant has been allocated to the department resulting in a net COVID-19 budget pressure of £4.696m.

38. The financial implications of the COVID-19 pressures are being reported separately in the government returns to Ministry of Housing, Communities and Local Government (MHCLG) from the council.

39. The Public Health directorate is coordinating various programmes across the borough in responding to the ongoing COVID-19 pandemic situation with separate funding via government grants. The ring-fenced Public Health grant budget for 2021-22 is reflecting a break-even position at year end.

40. Since the introduction of Low Traffic Neighbourhoods (LTNs) in some parts of the borough, and based on the financial information available to date, the department is projecting a net additional income of £3m at this time and this is reflected in table 1. The final net additional income from LTNs will be transferred to an earmarked reserve for reinvestment in locally important schemes including highways, transport, school streets, healthy streets and with the aim of tackling the climate emergency. Recognising the new nature of this income stream, the position will be need to be closely monitored throughout the remainder of the year.

Housing and Modernisation (H&M)

Overview

41. The outturn forecast for 2021-22 is an unfavourable variance of £8.2m (net), which reflects both underlying budget pressures, particularly homelessness and the on-going impact of the pandemic. Southwark has played a key role in supporting residents and businesses during the course of the pandemic ensuring that the most vulnerable in our

community and local economy are protected, at significant additional cost. Notwithstanding the financial support provided by government, the council will not be able to fully recoup its costs and income losses. The key budget headlines are set out below.

Resident Services - Temporary Accommodation (TA) and Housing Solutions

42. Demand for TA remains incessant, driven by the growing national homelessness crisis, excessive private sector rents and government restrictions on Local Housing Allowance (LHA) rates which means welfare benefits no longer cover the cost of private rented accommodation. Whilst there is an underlying demand pressure in Southwark for temporary accommodation, the pandemic continues to exacerbate the position and the budget is currently forecast to be £6.9m overspent after the application of £0.7m reserves. This includes a requirement for a higher level of bad debt/write-off provision to be set aside, reflecting the upward shift in arrears since March 2020.

43. The council took decisive action to respond rapidly to the demand to provide accommodation for the borough's rough sleepers and re-house those in shared accommodation, which is to be applauded. However, the budget position remains a major concern going forward given the continued uncertainty. The restrictions prohibiting evictions have ended, and whilst government assistance continues until September, it is likely to further increase demand and therefore the current outturn forecast should be viewed with caution. In addition, the Housing Solutions service is currently forecast to be £1.4m over budget which is predominantly for incentive payments to landlords to support households into private sector leased accommodation.

Customer Services – Coroners and Mortuary Service

44. The coroner's service operates as a consortium of four boroughs: Lewisham, Greenwich, Lambeth and Southwark, (the lead authority) and the cost of the service is shared amongst the members relative to population. The service continues to address social distancing guidelines by holding inquests at Tooley Street, which incur additional costs, such as building adaptations, security and coronial staffing estimated to be in excess of £0.2m. In addition there are underlying cost pressures in relation to organ donation that require the routine presence of an assistant coroner, along with professional fees that are dependant on the complexity of cases and volumes, which have added significantly to service expenditure since 2019. The service is currently forecasting a net overspend of circa £0.8m overall, of which around £0.2m is attributable to Southwark.

Customer Services – Technology and Digital Services (TDS)

45. The overall cost of TDS delivered in partnership with the shared

technology service (STS) is currently showing a favourable variance against budget of £0.7m. The programme to migrate from data centres to a cloud computing environment with Azure and upgrading to Office 365 continues and is expected to deliver greater operational efficiency and resilience in the longer term. The current budget reflects the expected full operational cost on completion, but in the interim the service continues to build on the smart working changes accelerated in response to the pandemic. This has enabled the council to maintain a high level of service capability throughout and work continues to prepare for post pandemic hybrid office/ home working.

Asset Management - Corporate Facilities Management (CFM)

46. CFM is responsible for managing the council's operational estate, ensuring that buildings are compliant with health and safety regulations and are fit for purpose for both staff and service users. The service continues to be at the forefront of the council's health and safety response to the pandemic, providing the physical adaptations, enhanced cleaning, security and welfare measures to protect staff and residents, creating a further budget pressure estimated at £1m. CFM also manages a programme of life-cycle capital investment projects across the council's operational estate and other capital works programmes for departments for which it derives fee income. While COVID-19 restrictions have eased, there is caution in forecasting the extent to which the investment programme can be delivered as planned and therefore a reduction in fee income of around £0.2m has been assumed.

47. The service is also in the process of delivering a complicated procurement for hard and soft facilities management services under a new single contract together with bringing some cleaning services in-house. This is being undertaken during a period of reflection and re-evaluation of the council's longer-term accommodation strategy and operational asset base. The forecast also reflects the benefit of a one-off backdated income windfall following the renegotiation of rental terms for office space provided to a partner organisation.

Central Services

48. Budgets held within this area are of a department-wide nature including corporate recharges and costs that are not specifically attributable to a particular service, for example, financing, and depreciation. The current forecast reflects anticipated lower activity and cost than expected giving rise to a favourable variance of £0.3m at this stage. Pending further review during the year this could give rise to budget savings going forward.

Chief Executive's department

49. The Chief Executive Department is currently forecasting an adverse variance of £3.484m for the year-end. The ongoing COVID-19 pandemic

situation is continuing to have a significant impact on departmental budgets with substantial additional costs and loss of income across the numerous service areas within the department.

50. The financial implications of the COVID-19 pressures are being reported separately in the government returns to Ministry of Housing, Communities and Local Government (MHCLG) and these amount to £2.040m. Therefore the adverse variance net of COVID-19 pressures for the department is £1.4m. This mainly relates to Planning and Growth division of £1.1m due to budget pressure on NNDR, staffing and reduction in planning fee income.

51. The Strategy and Change section within the Strategy and Economy division is also projecting budget pressures of £0.225m on staffing budgets.

52. 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.

Finance and Governance

53. Finance and Governance is reporting an adverse variance of £2.901m after the use of reserves. The key variances are within Exchequer services and are due to the COVID-19 pandemic. There has been a freeze on court costs and debt recovery and an increase in the use of the Capita contract contributing to the overall pressure.

54. Elsewhere favourable variances, principally due to staffing vacancies, help mitigate the COVID-19 impact of reduced income within the legal trading division.

Strategic Finance

55. Strategic Finance is forecasting a break-even position in 2021-22. The budgets are being monitored closely and any changes to the projected outturn position will be reported at the next revenue monitor report to cabinet.

Contingency

56. It is anticipated that the contingency budget will be fully utilised to meet existing and potential pressures within the 2021-22 General Fund budget.

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

57. As part of the budget setting process for 2021-22, £14.3m efficiencies, income generation and savings proposals were agreed. Strategic

Directors and their teams monitor these closely and the impact of any variances is accounted for within the forecasts presented at table 1.

HOUSING REVENUE ACCOUNT (HRA)

Table 2 - Housing Revenue Account

HRA M4 Monitor 2021-22	**Full Year Budget 2021-22**	**Outturn 2021-22**	**Variance 2021-22**
	£000	£000	£000
Asset Management	57,403	60,828	3,425
New Build	400	587	187
Communities HRA	9,145	9,095	-50
Resident Services	42,997	44,986	1,989
Directorate	1,803	1,853	50
Customer Services	6,664	7,153	489
Central Services	29,944	28,057	-1,887
Debt Financing	30,105	23,121	-6,984
Depreciation	53,000	51,600	-1,400
Exchequer Services	9,032	8,092	-940
Tenant's Rents & Service Charges	-226,252	-224,486	1,766
Homeowner Service Charges	-33,911	-30,556	3,355
Revenue Contribution to Capital	19,670	19,670	0
Appropriations to /(from) Reserves	0	0	0
Total HRA	**0**	**0**	**0**

58. This forecast is based on the latest expenditure trend analysis and incorporates known budget pressures and commitments in relation to the management and maintenance of the council's housing stock, including on-going costs arising from the COVID-19 pandemic. However, at this stage there are a number of variables in play that cannot be fully quantified and the forecast remains subject to change and should be viewed with caution. The position will be kept under review and any movements reported in subsequent monitoring reports. The underlying position is a negative variance of £11.3m (gross) which is off-set by service underspends and a combination of financing measures, predominantly debt financing, to ensure a balanced position at year-end. cabinet are advised that scope within the HRA to manage ever increasing resource demands is diminishing and cannot be sustained indefinitely without prioritisation of service provision moving forward.

59. As previously reported, the upkeep of the fabric of the housing stock consumes by far the largest proportion of operating resources, and notwithstanding considerable revenue budget growth over recent years

(circa £9m (net) since 2017-18), remains under pressure, with a forecast overspend of £3.4m (net). There are a number of budget variances across the division, particularly voids and disrepair. One factor that has contributed to the growth in expenditure over the medium-term is the cost of works contracts delivered in-house. Costs remain high and performance is not at the level predicated in the business model. Successful implementation of the strategic business improvement plan is crucial to improving operational efficiency/productivity, controlling costs and achieving the higher service standards and value for money that residents expect and deserve. Looking forward, the requirements arising out of the Building and Fire Safety bills will add even greater pressure on already stretched resources.

60. Other areas of concern and reported previously are the district heating network, where ageing infrastructure is problematic, causing frequent outages and requiring the use of expensive temporary boilers to maintain service. Coupled with the carbon reduction agenda, this cannot be met from revenue resources alone, but requires significant capital investment over a sustained period. Void turnover, particularly those used for temporary accommodation (reflected in the Resident Services outturn) is running at a higher rate and unit cost than originally predicated and shows no sign of abating, giving rise to significant budget variation which needs to be adequately baselined going forward.

61. Where permissible, eligible works expenditure is capitalised to mitigate the revenue position, but this is not a sustainable solution as it simply shifts the burden to the capital programme which is under resourced and requires re-profiling over an extended timeframe to remain affordable. A key business plan objective is to support the capital programme through revenue contributions and whilst this has been maintained and often exceeded, it has become increasingly harder to achieve in recent years and cannot realistically be sustained at the existing level going forward.

62. Rental and other income streams are of paramount importance for the viability of the HRA and service provision. Rent debit and void loss are key financial performance indicators and are monitored closely. Currently, these indicators are below target leading to a forecast income shortfall of around £1.8m (net). This is a corollary of the pandemic as it has impacted the delivery of new council stock coming on-stream as programmed and predicated in the budget. It has also impacted void turnaround and reflects measures adopted by the council to minimize the risk of COVID-19 to residents, i.e. rehousing hostel clients from shared accommodation in to temporary housing. Whilst there is an in-year impact in cash flow terms, the principal concern remains that of arrears which were adversely impacted in 2020-21, are gradually recovering, but remain below pre-pandemic levels and will require a proportionately higher bad debt provision to be made from the revenue account. The HRA maintains a prudent level of provisions to meet collection losses/write-offs and estimates that the full budgetary provision will be

required this financial year and will be unavailable to mitigate budget pressures elsewhere in the HRA.

63. Homeowner service charges represent the second largest income stream to the HRA and reflect the proportionate costs associated with managing and maintaining properties sold under the ‘Right to Buy’. These costs are fully rechargeable under the terms of the lease in order to prevent cross-subsidy from tenants. Given the nature and profile of the major works programme, expenditure is not linear from year to year leading to volatility in amounts billed between years which is to be expected, and which has been exacerbated by the pandemic. The forecast currently shows billing to be around £3m lower than budget, whereas in 2020-21 it was £5.1m higher. Fee income is also forecast to be lower than budget by up to £0.4m reflecting lower homeowner activity. Revenue service charges are forecast to be on budget.

64. Central Support Services comprises non-operational service budgets such as departmental and corporate overheads, arrears/bad debt provisions, revenue support for the capital programme and debt financing. Unlike the general fund, there is no requirement to make a minimum revenue provision (MRP) in the HRA which in the short-term provides the necessary flexibility to mitigate budget pressures and exceptional demands across the wider HRA. Current indications are that £7m will be required to ensure a balanced position at year-end. However, as the requirement to increase borrowing to finance the new homes programme and other strategic investment needs, such as the heating network and carbon reduction, this flexibility will be eroded and requires a more sustainable approach to service spending. Borrowing remains 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.

65. In the same manner 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 2021 earmarked reserves stood at £28.8m (previously £23m). The measured upward movement is to be welcomed, but in the context of the size of the council’s HRA and HIP, reserves still remain below the optimal level considered prudent and will be managed over the medium-term to build a greater level of sustainability going forward.

Reserves

66. The council retains a level of earmarked reserves and these are reported each year within the annual statement of accounts. As at 31 March 2021 the council had unallocated general fund reserves of £21.0m and net earmarked reserves of £205m.

67. Earmarked 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.

Any application of these reserves for budget pressures will necessitate reductions in the programmes of work to be funded from them.

68. General Fund balances may be available in the short term to support the costs of the pandemic but use of these reserves will compromise financial resilience and will need to be maintained at existing levels over the MTFS period. Currently this period is constrained by the level of uncertainty created by lack of information on government funding sources. These reserves remain critical to the council's policy and resources strategy. Any use of General Fund balances by implication compromises the budget setting process for future years.

69. As the year progresses, departments will continue to take management actions to reduce the cost pressures identified, and any plans to draw down from reserves to support the budget for 2021-22 will be closely monitored.

70. 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.

Treasury management

71. As at the end of the first quarter the outstanding debt held by the council was £856m, a decrease from £886m as at 31 March 2021. This reflects the scheduled repayment of short-term loans from other local authorities of £27.5m and £2.5m PWLB loan repayment.

72. During 2021-22 and in accordance with the approved Treasury Management Strategy, the council will review its long-term borrowing from the Public Works Loans Board (PWLB). All long term borrowing is to support the growth in capital investment.

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 31st July stood at £170m.

74. The council maintains sizable investment balances, representing income received in advance of expenditure plus balances and reserves held. Investments as at 30 June 2021 were £163m (£146m at 31 March 2021) reflecting Council resources that are not immediately required for current expenditure.

75. 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.

76. The annualised rate of return for council treasury management assets for the first quarter of 2021-22 financial year was 0.12%.

77. 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 0.04% indicating an outperformance of the council portfolio versus the benchmark.

78. 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, equalities (including socio-economic) and health impacts

79. This report monitors expenditure on council services, compared to the planned general fund budget agreed in February 2021, and HRA budget agreed in January 2021. 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.

Climate change implications

80. There are no climate change implications arising directly from this report, which provides an update on the forecast revenue outturn for 2021-22. There is one decision contained within the recommendations and it relates to the virement of budgets within the organisation which is effectively an administrative change with no climate change impact.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and Resources Strategy 2021-22 – revenue budget: Council Assembly 24/02/2021	160 Tooley Street PO Box 64529 London SE1P 5LX	Tim Jones 0207 525 1772
Link (please copy and paste into browser): https://moderngov.southwark.gov.uk/documents/s93774/PRS%20Council%20Assembly%20Report%2024%20February%202021.pdf		
Housing Revenue Account: Final Rent-Setting and Budget Report 2021-22: Cabinet 19/01/2021	160 Tooley Street PO Box 64529 London SE1P 5LX	Ian Young 020 7525 7849
Link (please copy and paste into browser): https://moderngov.southwark.gov.uk/documents/s92939/Report%20Housing%20Revenue%20Account%20report.pdf		

APPENDICES

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

AUDIT TRAIL

Cabinet Member	Councillor Rebecca Lury, Finance, Performance and Democracy	
Lead officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report author	Tim Jones, Departmental Finance Manager	
Version	Final	
Dated	2 September 2021	
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		2 September 2021

APPENDIX 1

Interdepartmental movements to be approved for months 1 to 4

Department From	Amount £	Department to	Amount £	Description of the budget movement
Children and Adults	(2,742,241)	Finance & Governance	2,742,241	Transfer of Free School Meal Budgets
Housing and Modernisation	(1,309,300)	Chief Executive's	1,309,300	Transfer of Organisation Transformation