Item No.	Classification	Date:	Meeting Name:
11.	Open	8 March 2022	Cabinet
Report title:		Policy and Resources Strategy: revenue monitoring report (month 8)	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Rebecca Lury, Finance, Performance and Democracy	

FOREWORD – COUNCILLOR REBECCA LURY, FINANCE, PERFORMANCE AND DEMOCRACY

This report sets out the most up to date revenue monitoring position for the Council.

COVID-19 continues to impact on the financial position of the Borough, and we are in a more precarious position as the Government is no longer providing the levels of financial support that were seen in the previous financial year. We expect financial impacts to continue throughout this year, with planned savings delayed or cancelled, lost income from fees and charges, and reductions in tax collection in both council tax and business rates.

However, our financial position has improved, and we are now forecasting an overspend on the General Fund of £1.9million, which is an improvement on the £4.6million month four forecast.

The position of the DSG has also improved, and we now expect a balanced position for the first time in several years. However, it remains the case that we are carrying a £20.6million accumulated deficit on the balance sheet.

Temporary Accommodation remains a key area of concern for us, and we are forecasting an overspend of £6.4million, which, whilst an improvement on previous forecasts, demonstrates the immense pressure on the system.

We will therefore continue to lobby national government to provide further support for COVID-19 losses, to alleviate our DSG deficit and to provide additional resource for temporary accommodation.

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 - 20);

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 £6.4m after use of reserves

5. That cabinet notes the Housing Revenue Account (HRA) forecast outturn position for 2021-22 (Table 2, paragraphs 53 - 60)

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 66 - 73).

BACKGROUND INFORMATION

8. 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.

9. 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.

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

KEY ISSUES FOR CONSIDERATION

General Fund overall forecast position

11. Table 1 below shows the current forecast outturn position by department. The council is forecasting an overspend on the General Fund of £1.9m after application of the Government's Emergency COVID-19 Funding and contingency budget of £4.0m. This is an improvement on the £4.6m month four forecast.

12. 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. This situation will continue to be monitored 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.

13. Notably, the ring-fenced DSG continues to forecast a balanced position for the first time in several years (detail in departmental narrative below). However, this still leaves a £20.6m 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* £'000	Budget movement £'000	Revised budget £'000	Forecast Spend in year £'000	Variance before use of reserves £'000	Planned movement in reserves £'000	Total use of resources £'000	Variance after use of reserves £'000
Children's services	65,440	-	65,440	67,174	1,734	-	67,174	1,734
Adult social care	86,237	-	86,237	84,418	(1,819)	-	84,418	(1,819)
Commissioning	4,629	-	4,629	4,698	69	-	4,698	69
Education	21,312	(2,742)	18,570	18,495	(75)	-	18,495	(75)
Total children's and adults' (excluding Dedicated Schools Grant)	**177,618**	**(2,742)**	**174,876**	**174,785**	**(91)**	**-**	**174,785**	**(91)**
Environment and leisure	87,811	342	88,153	83,371	(4,782)	5,255	88,626	473
Public Health	-	-	-	-	-	-	-	-
Housing and modernisation	61,168	(1,309)	59,859	67,939	8,080	-	67,939	8,080
Chief executive's	(302)	1,459	1,157	4,440	3,283	(284)	4,156	2,999
Finance and governance	20,669	(14)	20,655	24,033	3,378	(204)	23,829	3,174
Strategic finance	(10,697)	2,584	(8,113)	(9,821)	(1,708)	-	(9,821)	(1,708)
Support cost recharges	(41,332)	(321)	(41,653)	(41,653)	-	-	(41,653)	-
Contingency	4,000	-	4,000	4,000	-	-	4,000	-
Contribution from Reserves	(5,815)	-	(5,815)	(5,815)	-	-	(5,815)	-
Total General Fund services	**293,120**	**(0)**	**293,120**	**301,280**	**8,160**	**4,767**	**306,046**	**12,927**
Covid-19 Funding	**-**	**-**	**-**	(15,998)	(15,998)	**5,000**	(10,998)	(10,998)
Total General Fund services	**293,120**	**(0)**	**293,120**	**285,282**	**(7,838)**	**9,767**	**295,048**	**1,929**

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
Dedicated Schools Grant	-	-	-	-	-	-	-	-
Net revenue budget	**293,120**	**(0)**	**293,120**	**285,282**	**(7,838)**	**9,767**	**295,048**	**1,929**

14. 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

15. 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 DLUHC have continued to request data on a monthly basis detailing the expected additional costs and income losses due to the impact of the pandemic, however from 2022-23, any continuing impact will have to be met from the general government grant funding to local authorities.

16. The council has submitted a claim for income losses in Sales, Fees and Charges (SFC) in 2021-22 of £1.9m on losses of £3.3m, amounting to 58% of losses rather than the headline figure of 75%. Extension of this scheme past June is still in doubt. The council's full year estimate of potential SFC losses is £11m.

17. 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.

18. With respect to Collection Fund losses, the government have funded 75% of these. Residual losses will be permitted to be spread over three financial years from 2021-22.

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

Departmental Monitoring Information

Children's and Adults' Services

20. 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 £0.1m before any DHLUHC grant is applied. The key areas of concern include children's social care due to continuing pressures in staffing, the pressures within schools financials attributable to failing rolls as well as the medium to long term effect of pandemic on Adult social care.

21. 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

22. The adult social care division is forecasting a favourable variance. The variance include the reimbursement of hospital discharge and admittance avoidance costs of approx. £3m. This COVID-19 related funding was first announced in March 2020 and now has been extended until the end of March 2022 and is expected to ensure there is sufficient bed capacity in the hospitals to deal with the pandemic.

23. The division has experienced significant Covid related pressures especially in care packages expenditure such as homecare, nursing and residential spend. The underlying COVID-19 related pressure within Adult social care for the financial year is around £8.6m 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. However it is a concern that the financial support to Adult social care has only been extended until the end of the financial year as the department will continue to bear the longer effect of the pandemic and it is likely to cause on-going financial pressures in future years. The division has continued to support the provider market through additional payments such as infection control and rapid response fund payments. Adult social care is also expected to be adversely affected by the care cap threshold changes as well as inflationary pressure relating to London living wage and the costs of increased employers' National insurance contributions.

24. In order to ensure the division continues to deliver favourable financial performance it will ensure that strict financial controls remain in place. The post COVID-19 environment is expected to carry the 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

25. The division has worked very hard to minimise the impact and legacy of the COVID 19 pandemic. At Month 8, the division is forecasting an adverse variance of £1.7m before any COVID related government

funding has been applied. This forecast is a significant improvement to previous year's outturn and includes around £1m COVID related pressure. The underlying key cost drivers within the division is 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 rising numberS of unaccompanied asylum seeking children in the borough is likely to present more financial pressure especially in the medium and longer term.

26. The service continues 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 expensive than permanent staff which causes financial concerns for the division. In order to mitigate this the service is concentrating to develop 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

27. The Commissioning division is forecasting a small adverse variance. This forecast includes underlying staffing pressures, which is mainly due to delays in restructuring. 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

28. Education services is forecasting a small favourable variance before any COVID related support has been applied. This balanced provision was achieved through savings in staffing due to delays in recruitment as well as one off contribution from All Age Disability service towards the home to school transport. As these were one off contributions to the service 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 home to school transport remains the key medium to long term driver for financial pressures especially as COVID-19 has created additional financial strain on the service due to the application of necessary social distancing measures and the negative impact on the services ability to deliver savings targets. The service continues to provide additional support to all schools and supported children and families with enhanced Free School meals offer during school holidays.

Dedicated School Grant

29. 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 £20.6m. 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. This issue is being experienced nationally and lobbying continues through both local and national Education and Finance directors' representative bodies.

30. The High needs block remains the main risk area of the DSG. In order to be able to achieve the forecasted in-year balanced position officers continue to pursue savings and efficiencies against the High Needs Block. In particular through commissioning work focussed on Independent Non-Maintained Special Schools, a focus on establishing economic 16-25 pathways 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.

31. There is also a growing concerns 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 work together with schools to right size the school estate through reviewing options around amalgamations, mergers and closures to match demand.

Environment & Leisure (E&L)

32. The department is projecting an adverse variance of after the expected movement in reserves. The ongoing COVID 19 pandemic situation is still impacting on departmental budgets with substantial additional costs and loss of income across the numerous service areas within the department.

33. 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. The total cost of the COVID 19 budget pressure identified in the department is £4.408m with some specific grant of £1.278m allocated to the department resulting in a net COVID budget pressure of £3.130m.

34. The Public Health directorate is coordinating various programmes across the borough in responding to the ongoing COVID 19 pandemic situation with separate additional funding via government grants. As a result, Public Health is experiencing reduced levels of activity in some areas leading to reduced expenditure against budgets.

35. The ring-fenced Public Health grant budget for 2021/22 is forecasting a break-even position, although given the exceptional circumstances and rapidly changing policy environment the final outturn could deviate from this, necessitating movements to or from reserves.

36. The budgets are being monitored closely and any changes to this position will be reflected in the outturn report to cabinet.

Housing and Modernisation (H&M)

Overview

37. The outturn forecast for 2021-22 continues to show an unfavourable variance of £8.1m (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

38. Demand for TA remains unremitting, 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 a strong underlying demand pressure in Southwark for temporary accommodation, the pandemic has and continues to exacerbate the position. 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.

39. The TA budget is currently forecast to be £6.4m overspent, which is an improvement over earlier forecasts, as the position shows signs of stabilising and the expected spike in numbers due to evictions in the private rented sector has not materialised yet, but remains a risk going forward and the forecast should be viewed with caution. Additional one-off grant funding has to some extent contributed to the improved financial outlook, but there is no certainty around grant levels for 2022-23. Given the upward shift in arrears since March 2020, there is a requirement for a higher level of bad debt/write-off provision to be set aside which is included in the forecast. In addition, the Housing Solutions service is currently forecast to be £1.2m over budget, which is predominantly for incentive payments to landlords to support households into private sector leased accommodation. This is also better than previously reported.

Customer Services – Coroners and Mortuary Service

40. 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. 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)

41. The combined cost of TDS delivered in partnership with the shared technology service (STS) shows a positive variance of £0.7m. This is in relation to on-going strategic development programmes to migrate from existing data centres to the cloud, upgrading to Office 365 and the adoption of a new Target Operating Model (TOM), which are currently forecast to come on stream during 2022, albeit later than originally envisaged. In anticipation of these developments, base budget provision has already been established to meet the resulting revenue costs on completion. In the interim the service continues to build on the smart working changes accelerated in response to the pandemic, which have 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)

42. 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. This has created an unavoidable budget pressure estimated at £1.2m, which remains subject to variation in light of changing Covid circumstances. CFM also manage 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. However, the planned works programme has been impacted resulting in a reduction in fee income of around £0.2m for the year.

Central Services

43. Budgets held within this activity 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, and which has contributed to a modest budget saving going forward.

Chief Executive's department

44. The Chief Executive Department is currently forecasting an adverse variance at year-end. The COVID 19 pandemic situation is still impacting on departmental budgets with substantial additional costs and loss of income across the numerous service areas within the department.

45. 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 amounts to around £2m. Therefore the adverse variance net of COVID pressures for the department is approximately £1m.

46. This mainly relates to Planning and Growth division where there are budget pressures on NNDR and other operational costs.

47. The budgets are being monitored closely and any changes to this position will be reflected in the outturn report to cabinet.

Finance and Governance

48. Finance and Governance is reporting an adverse variance of £3.174m 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.

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

Strategic Finance

50. Strategic Finance is forecasting a favourable variance for 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

51. 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

52. 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: HRA Month 8 Monitor 2021-22

	Full Year Budget 2021-22	Outturn Forecast 2021-22	Budget Variance 2021-22
	£000	£000	£000
Asset Management	57,403	60,857	3,454
New Build	400	588	188
Communities HRA	9,145	9,112	-33
Resident Services	43,542	46,865	3,323
Directorate	1,803	1,838	35
Customer Services	6,664	7,492	828
Central Services	29,399	26,586	-2,813
Debt Financing	30,105	23,105	-7,000
Depreciation	53,000	51,100	-1,900
Exchequer Services	9,032	8,192	-840
Tenant's Rents & Service Charges	-226,252	-224,384	1,868
Homeowner Service Charges	-33,911	-29,221	4,690
Revenue Contribution to Capital	19,670	14,370	-5,300
Appropriations to /(from) Reserves	0	3,500	3,500
Total HRA	**0**	**0**	**0**

53. 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 pandemic. The underlying position is an adverse variance of £13.1m (gross) which is primarily off-set through a reduction in the revenue contribution to capital to match the lower than expected major works billing, along with planned reductions in financing and depreciation, to ensure a balanced position at year-end. However, there remains a number of variables in play that cannot be fully quantified and the forecast should be viewed with caution at this point. The position will be kept under review and movements reported as part of the final accounts process in June 2022. Cabinet are reminded 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.

54. As previously reported, the upkeep of the fabric of the housing stock consumes by far the largest proportion of operating resources, and despite revenue budget growth of circa £9m since 2017-18, remains under pressure with a forecast overspend of £3.5m for the year across the Asset Management division. There are a number of budget variances across the board, 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 from the Building Safety Bill and Fire Safety Act will significantly exacerbate the position and provision for budget growth is proposed as part of the 2022-23 HRA budget setting report scheduled for Cabinet in January 2022.

55. Another area of concern is the district heating network which supplies around 17,000 homes. The age, scale and complexity of the network infrastructure is problematic, causing frequent outages and requiring the use of more expensive temporary boilers to maintain service. Coupled with the council’s commitment to reduce its carbon footprint, cannot be met from revenue resources alone, but requires significant capital investment over a sustained period. In addition, 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 whilst the number of new lets has reduced over recent years, there is a significant budget variation which needs to be adequately baselined going forward.

56. Where permissible, eligible works expenditure is capitalised to mitigate the revenue position, but this is not a long-term 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 long-standing business plan objective has been to support the capital programme through revenue contributions and whilst this has been maintained and often exceeded in the past, it has become increasingly more difficult to do so and cannot realistically be sustained at the existing level going forward. Given the indicative outturn position for this year, it is currently assumed that the revenue contribution rate will be adjusted downwards in line with the estimated reduction in major works billing of £5.3m. However, this will be kept under review until year-end pending any further budget movements that may occur and other potential funding options available.

57. 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 £1.9m (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 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. Whilst collection rates are improving, they remain below pre-pandemic levels and will require a proportionately higher bad debt provision to be set aside this year. 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.

58. 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. Estimated billing this year is significantly lower at £5.7m versus the budget of £11m. Miscellaneous fee income is also forecast to be down by circa £0.4m reflecting lower homeowner activity. Revenue service charge billing is estimated to be £1m higher than budget reflecting actual costs incurred.

59. 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 has over time provided flexibility to mitigate budget pressures and exceptional demands across the wider HRA. Current indications are that £3.5m will be required to ensure a balanced position at year-end. However, as the requirement to borrow increases to finance the new homes programme and other strategic investment priorities, this flexibility will be eroded and require 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.

60. 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. This will be managed over the medium-term to build a greater level of sustainability going forward including a planned contribution of £3.5m this year.

Reserves

61. 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.

62. 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.

63. 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.

64. 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.

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.

Treasury management

66. As at the end of the third quarter the outstanding debt held by the council was £874m, a decrease of £12m from £886m as at 31 March 2021. This reflects the scheduled repayment of short-term loans from other local authorities offset by new borrowing.

67. 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.

68. 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 31 December stood at £140m.

69. The council maintains sizable investment balances, representing income received in advance of expenditure plus balances and reserves held. Investments as at 31 December 2021 were £197.4m (£146m at 31 March 2021) reflecting Council resources that are not immediately required for current expenditure.

70. 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.

71. The annualised rate of return for council treasury management assets for the third quarter of 2021-22 financial year was 0.03%.

72. To assess the treasury management portfolio performance, the council measures the return against a composite investment benchmark of SONIA and one to three year gilt index. For the equivalent period of the financial year the benchmark index annualised return was -0.23% indicating an outperformance of the council portfolio versus the benchmark.

73. 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 DLUHC.

Community, equalities (including socio-economic) and health impacts

74. 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

75. There are no climate change implications arising directly from this report, which provides an update on the forecast revenue outturn for 2021-22.

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
None	

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	
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CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments included**
Director of Law and Governance	No	No
Strategic Director of Finance and Governance	N/a	N/a
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		28 February 2022