Item No. 14.	Classification: Open	Date: 18 July 2022	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy: revenue monitoring report outturn, including treasury management 2021-22	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Stephanie Cryan, Finance, Democracy and Digital	

FOREWORD – COUNCILLOR STEPHANIE CRYAN, CABINET MEMBER FOR FINANCE, DEMOCRACY AND DIGITAL

This report sets out the outturn position for the general fund, housing revenue account and the dedicated schools grant for the financial year. I am pleased to announce a balanced outturn position after using £13.5m of COVID support grants, £4m contingency and earmarked reserves.

This is a good outcome as the council dealt with a second year of COVID and implemented a number of national schemes to support businesses and residents together with the council stepping in to support vulnerable households.

As we enter recovery from the pandemic there are a number of significant underlying budget pressures.

In the General Fund the outturn position for the Dedicated Schools Grant is a £1.1m in year deficit which brings the accumulated position to £21.7m due to ongoing high needs pressure. We are in discussions with the Department of Education and the Education and Skills Funding Agency as this is a national problem which needs government support to bring any reduction in the deficit. In children's social care we have a shortage in supply of children's social workers and an increase in the number of Unaccompanied Asylum Seeking Children. This is placing additional financial pressures on the department. We also continue to see overspends in temporary accommodation due to increased demand exacerbated by the pandemic, driven by the national homelessness crisis and excessive private sector rents. A review of this is taking place through the Budget Recovery Board to review all aspects of policy and provision and procurement.

There are a number of significant underlying budget pressures in the Housing Revenue Account. New commitments have arisen from the management and maintenance of housing stock. New requirements arising from the Building Safety and Fire Safety Acts will only serve to exacerbate the pressure on both revenue and capital resources. In addition, the Council needs to borrow to

fund the housing investment programme which will increase significantly at the same time as meeting investment in current stock, building and fire safety works, investment in our heat networks, and our commitments to carbon reduction.

Despite the ongoing pressures, the outturn position continues to demonstrate strong financial management and sound governance arrangements across the Council.

RECOMMENDATIONS

1. That the cabinet notes the balanced general fund outturn position for 2021-22 after the application of reserves and emergency Covid-19 funding (Table 1);

2. That the cabinet note the application of £13.5m of general Covid-19 emergency grant funding;

3. That the cabinet notes the key adverse variations and budget pressures underlying the outturn position:

   (i) The DSG outturn position of a £21.7m deficit and the pressures on high needs budgets;

   (ii) The continuing budget pressures within Children's Social Care;

   (iii) The continuing budget pressures on Temporary Accommodation;

4. That the cabinet notes the utilisation of £4m contingency (paragraph 60) to offset adverse variances;

5. That cabinet notes the housing revenue account outturn for 2021-22 (Table 2, paragraphs 61-69);

6. That cabinet notes the detailed movements of earmarked reserves as set out in Appendices B and C;

7. That cabinet notes treasury management activity in 2021-22 (paragraphs 85-92)

8. That cabinet approves the interdepartmental budget movements that exceed £250k, as shown in Appendix A;

9. That cabinet note the interdepartmental general fund budget movements that are less than £250k as shown in Appendix A.

BACKGROUND INFORMATION

10. This report sets out the outturn position for the general fund, housing revenue account and dedicated schools grant for the 2021-22 financial

year.

11. The council agreed a balanced General Fund budget of £293.1m on 24 February 2021 based on a 4.99% council tax increase. The Policy and Resources Strategy for 2021-22 assumed that reserves of £5.8m would be used to support the budget.

12. The council also approved budget decisions which included efficiencies, savings and additional income generation of £14.3m within the General Fund for 2021-22. Performance on achieving these savings is closely monitored and any significant variances are included in departmental narratives.

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

KEY ISSUES FOR CONSIDERATION

General fund overall position

14. The final outturn position for the general fund is balanced after the utilisation of reserves, as set out in Table 1 below. This table shows the departmental budget outturn variances together with the utilisation of reserves to come to the balanced outturn as at the end of 2021-22.

Table 1: 2021-22 General Fund outturn position

General Fund	Original Budget	Budget Movement	Revised Budget	Net Spend in Year	Year-end reserve movement	Total use of resources	Variance after use of reserves
	£000	£000	£000	£000	£000	£000	£000
Children & Families	65,440	318	65,758	68,568	-	68,568	2,810
Adult Social Care	86,236	27	86,264	83,061	-	83,061	(3,202)
Commissioning & Central	4,629	-	4,629	4,826	-	4,826	197
Education	21,162	(2,941)	18,222	17,984	-	17,984	(237)
Children & Adults (excl. DSG)	**177,468**	**(2,596)**	**174,872**	**174,440**	**-**	**174,440**	**(432)**
Dedicated Schools Grant	150	(150)	-	1,056	-	1,056	1,056
Environment & Leisure	87,811	1,984	89,795	90,381	-	90,381	586
Housing & Modernisation	61,168	(755)	60,413	68,218	-	68,218	7,805
Chief Executive's	(302)	1,521	1,219	3,049	-	3,049	1,830
Finance & Governance	20,865	364	21,229	21,187	-	21,187	(43)
Public Health	(0)	-	(0)	(0)	-	(0)	0
Strategic Finance	(10,893)	641	(10,252)	(24,452)	17,902	(6,550)	3,702
Support Cost Reallocations	(41,332)	(1,009)	(42,341)	(42,341)	-	(42,341)	-
Contingency	4,000	-	4,000	4,000	-	4,000	-
Contribution from Reserves	(5,815)	-	(5,815)	(5,815)	-	(5,815)	-
Net Revenue Budget	**293,121**	**-**	**293,121**	**289,724**	**17,902**	**307,626**	**14,505**
DSG overspend taken to DSG adjustment account				-	(1,056)	(1,056)	(1,056)
Covid-19 emergency funding support				(13,449)	-	(13,449)	(13,449)
Outturn after reserve movements				**276,274**	**16,846**	**293,121**	-

15. The overall 2021-22 outturn position shows a nil variance after movements to reserves and application of Covid-19 emergency funding

support.

16. Within the overall position, additional costs and lost income due to the pandemic amounted to £13.5m which has been met by emergency funding support (including sales, fees and charges compensation).

17. In the last year the council has also had to implement national support schemes such as the Business Rates Grants Support Schemes; the Council Tax Hardship Support Schemes; Test and Trace Payments; the Covid Local Support Scheme; Infection Control Schemes; and Contain Outbreak Management schemes as well as addressing increased demand for support to vulnerable households whilst accommodating new ways of working in response to the pandemic.

18. Elsewhere, underlying demand-led pressures continue in several areas such as High Needs, Children's Social Care, Temporary accommodation and welfare support. These variances are described in more detail in the narrative below.

19. The appendices attached to this report provide more detail on the in year budget movements, the utilisation of reserves by each department and closing reserve balances (Appendices A, B & C).

20. The overall impact of these transactions will be reported in full within the draft statement of accounts to be signed by the S151 Officer and will also be considered by the Audit, Governance and Standards Committee later this year. These will then be subject to external audit.

21. The following paragraphs outline in more detail the outturn by directorate:

CHILDREN'S AND ADULTS' SERVICES

22. This has been another challenging year for Children's and Adults Services due to the combined effect of the pandemic and general economic uncertainty. Despite these challenges, working in partnership with finance, HR and procurement, the department achieved a favourable variance of £0.4m in the 2021-22 financial year. The key areas of concern include children's social care due to continuing pressures in staffing as well as the emerging Unaccompanied Asylum Seeking Children's (UASC) pressures as well as the unfavourable financial situation within schools attributable to falling pupil roles. While Adult Social Care has experienced favourable variances in recent years, the medium to long term effect of the pandemic as well as changes arising from the planned charging reform and the introduction of fair costs of care creates future financial uncertainty for the sector. The department has ensured there are healthy reserves available to withstand some of the challenges mentioned and continue to practice strict financial management across the areas.

Adult Social Care

23. The adult social care division closed the year with a favourable outturn despite the considerable challenges it faced in the second year of the pandemic. The division has experienced significant Covid 19 related pressures especially in care package expenditure such as homecare, nursing and re-ablement spend. In 2021-22, additional one-off government funding has offset these pressures. In order to ensure sustainability of the provider market the division has provided additional grants to enable infection control measures to be implemented and further supported through 'rapid response' payments.

24. It was anticipated that the post Covid 19 environment may lead to increased demand for services due to longer than usual periods of hospitalisation and delays in seeking medical attention for conditions during lockdown. As well as pressures arising from the aftermath of the pandemic, increasing inflation, changes to the care cap threshold and the introduction of the fair costs of care is also expected to bring additional financial burdens in future years. In order to ensure the division continues to deliver a favourable financial performance, it will need to ensure that strict financial measures continue to be in place. The service has a track record of good financial management in partnership with finance, HR, commissioning and procurement colleagues, this will have to continue in order to ensure financial sustainability in future years.

Children's Social Care

25. The division has faced a number of challenges during the year which led to an adverse outturn. This forecast is an improvement to the previous year's outturn and includes around £1.5m COVID related pressure. The underlying key cost drivers within the division are staffing and placements costs relating to UASC. 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, a rising number of unaccompanied asylum seeking children in the borough is likely to present additional financial pressure especially in the medium and longer term. The service is also 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. 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

26. The Commissioning division has ended the year with an unfavourable variance. This forecast includes underlying staffing pressures, which is

mainly due to the delay in restructuring. The directorate is working on reducing the use of agency staff and establishing a permanent staffing structure that will be able to support the needs of the department.

Education

27. Education services achieved a small favourable variance this financial year. This position was achieved through savings in staffing due to delays in recruitment as well as a one off contribution from the 'All Age Disability' service towards home to school transport costs. 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 service remains the key medium to long term driver of financial pressures on the education general fund, especially as Covid 19 has created an additional financial strain on the service due to the application of necessary social distancing measures and the consequent inability to deliver savings targets. The service continues to provide additional support to all schools and has supported children's and families with an enhanced Free School meals offer during school holidays.

Dedicated School Grant

28. The ring–fenced Dedicated Schools Grant (DSG) achieved an unfavourable outturn of £1.1m which is mainly due to the higher than expected demand on the high needs service bringing the accumulated deficit position to £21.7m as at 31st March 2022.

29. The service is working closely with finance, HR and schools to bring back the dedicated school grant to a sustainable footing however, it has been recognised that departmental support is needed to tackle the accumulated deficit positon. In order to do this the council has been in correspondence with the Department for Education (DFE) and Education and Skills Funding Agency (ESFA) about the support required. This is a national issue and lobbying continues through both local and national Education and Finance directors' representative bodies.

30. The High Needs block remains the main risk area for the DSG. In order to bring the service to a sustainable footing officers need to 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 Education, Health and Care Plans (EHCP's) as this is a highly demand led service area.

31. 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 roles that has 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 ensure it matches demand.

ENVIRONMENT AND LEISURE

32. The final 2021-22 outturn for the Environment and Leisure department is an adverse variance of £0.586m.

33. The COVID 19 pandemic situation continues to have an impact on departmental budgets with additional costs and loss of income across the service areas but to a lesser extent than the previous financial year.

34. The financial implications of the COVID 19 pressures has been captured and reported in detail as part of the government returns to the Department for Levelling Up, Housing and Communities (DLUHC) from the council.

35. The total cost of the COVID 19 budget pressure identified in the department amounted to £4.53m with some specific grant of £1.66m allocated to the department resulting in a net COVID budget pressure of £2.87m.

36. The surplus of £6.5m generated on the Low Traffic Neighbourhood (LTN) accounts has been transferred to the LTN reserve to be used in funding schemes to improve access around the borough including healthy streets and with the aim of tackling the climate emergency.

37. The final adverse variance of £0.586m for 2021-22 is expected to be contained by central government COVID 19 grants and council's contingency resources held corporately.

38. The Public Health directorate has been in the forefront in tackling the COVID 19 pandemic at a local level and has received funding from the Contain Management Outbreak Fund (COMP) and other COVID 19 related grants. The final position on the ring fenced Public Health grant was a favourable variance of £1.8m which has been transferred to the Public Health reserve to fund Public Health priorities for future years.

HOUSING AND MODERNISATION

Overview

39. The outturn for 2021-22 shows a negative variance of £7.8m, which is £0.3m lower than forecast at month 8. This reflects the unrelenting cost pressure of homelessness provision and new costs directly attributable to the measures put in place in response to the pandemic, some of which will continue for the foreseeable future. Southwark has played a

key role in supporting residents and businesses during the pandemic, ensuring that the most vulnerable in our community and local economy are protected, which like in the previous financial year has resulted in significant additional cost. Notwithstanding the financial support provided by government, the council will not be able to fully recoup all its costs and income losses. The key budget headlines are set out below.

Resident Services - Temporary Accommodation/ Housing Solutions

40. There is a strong underlying demand pressure in Southwark for temporary accommodation, which has been exacerbated by the pandemic. This is driven by the growing national homelessness crisis, excessive private sector rents and restrictions on Local Housing Allowance (LHA) rates, which means welfare benefits don't cover private sector rental rates.

41. Overall, the outturn position for TA shows an adverse variance of £5.45m, plus a further £0.9m for the housing solutions service. Whilst early forecasts were higher, the rate of growth has stabilised over the second half of the year and the scale of procurement of suitable private sector leased accommodation (in accordance with the council's Good Homes Standard) is below initial expectations, which has fortuitously reduced expenditure in year. Additional one-off grant funding has also assisted in mitigating the position this year.

42. However, the budget position remains a major concern going forward given the continued uncertainty, particularly with the rising cost of living and other global issues such as the conflict in Ukraine and the council has again approved additional budget resources for 2022-23 to meet demand. The council remains fully cognisant of its statutory homeless duties and the need to fulfil these obligations in the most cost effective and sustainable way. To this end, the council has established a Budget Recovery Board (BRB) to review all aspects of temporary accommodation provision, including policy, procurement and service delivery over the coming year.

Exchequer Services - Contact Centre/ SMART

43. The Contact Centre including the Out of Hours (OoH) and SMART services have been subject to severe budget pressure during the year and shows a negative variance of almost £1m. There are a number of reasons for this, primarily, increased activity/demand during the pandemic and the inability to achieve planned restructuring savings and income targets for services provided by the Contact Centre to both external bodies and internal clients as originally envisaged. Furthermore, it has been necessary to increase capacity across the board, particularly in OoH and SMART, to address staffing shortfalls, including Covid outbreaks amongst staff, thereby reducing operational capacity. Lastly, there is the impact of the settlement of backdated allowance claims, which will also have some residual impact in the current year.

Customer Services – Coroners and Mortuary

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 held jury inquests at Tooley Street from June 2021 to February 2022, to ensure social distancing requirements could be maintained, but this has come at additional cost for 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 dependent on the complexity of cases and volumes. Expenditure for 2021-22 was £0.466m over budget (including pandemic related costs totalling £0.115m), which is met proportionally by the consortium members. The Mortuary Service was also £0.037m over budget due to higher costs arising directly from the pandemic.

Customer Services - Technology and Digital Services (TDS)

45. The service has continued to deliver significant operational change, initially in response to the pandemic, which enabled the council to maintain a high degree of service capability through remote working. Particular focus this year has been the on-going migration from data centres to a cloud-computing environment with Azure and developing the Office 365 environment to deliver greater operational efficiency and resilience in the longer term. Overall, expenditure was £0.231m below budget. Specific priorities include projects to deliver the council's data strategy comprising collection, storage and retention, cyber security, predictive analytics and rationalisation/ standardisation of the IT estate to create a more holistic approach to service delivery.

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 has played a critical role in the council's response to the pandemic, making physical adaptations to buildings and providing extra cleaning, security and other operational measures to council buildings at a cost of approximately £1m.

47. Moreover, CFM deliver a planned works programme that generates fee income to support the budget. Whilst the pandemic badly affected programme delivery in 2020-21, this year has seen a strong recovery in delivery and associated fee income, marginally exceeding the budget target. The service also benefited from a net increase in licence fee income of £0.252m under a partnership arrangement for leased workspace at the councils' Queen's Road office complex.

48. Following an abortive exercise during 2021, the service has recently concluded a complicated procurement for hard and soft facilities management services, due to commence in October 2022, that has required additional staffing capacity to resource it, giving rise to a net staffing pressure of £0.223m. Other unavoidable budget pressures include utility costs at £0.140m, along with a number of smaller variances across supplies and services, transport and other property budgets accounting for the balance of the £1.079m outturn variance.

Asset Management - Private Sector Building Safety

49. The private sector building safety team was established during 2021 to undertake inspections and enforcement on private blocks falling within the remit of the building and fire safety bills. An initial staffing structure and budget was established but in the absence of a fully formed view of the scale of the undertaking at that time. It has transpired that more resources have been necessary than budgeted, largely staffing, enforcement and IT costs, which accounts for £0.242m of the reported Asset Management variance.

Central Support Services

50. 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 charges. Employee contingency sums held centrally were sufficient to cover the backdated pay award from April 2021 and accrued for in the accounts at service level. Other favourable variances include pension services (taken as a saving for 2022-23) and engineering assessments, giving rise to an exceptional net underspend of approximately £0.6m.

CHIEF EXECUTIVES DEPARTMENT

51. The final 2021-22 outturn for the Chief Executive Department is an adverse variance of £1.83m

52. The COVID 19 pandemic situation continues to have an impact on departmental budgets with additional costs and loss of income across the service areas but to a lesser extent than the previous financial year.

53. The financial implications of the COVID 19 pressures has been captured and reported in detail as part of the government returns to DLUHC from the council.

54. The total cost of the COVID 19 budget pressure identified in the department amounted to £0.752m and once this is adjusted against the above variance of £1.830m, the department reflects a revised adverse variance of £1.078m excluding COVID budget pressures. This largely relates to staffing pressures in Employee Experience and a reduction in

income in the planning & growth division, primarily linked to the pandemic.

55. The adverse variance of £1.830m is expected to be contained by central government COVID 19 grants and council's contingency resources held corporately.

FINANCE AND GOVERNANCE

56. The Finance and Governance department, including Benefits and Subsidy and Pensions Administration is reporting a favourable variance of £0.193m.

57. During 2021-22 the Exchequer Services has continued to administer an exceptional number of pandemic related grant funding schemes and business rate reliefs for local businesses. These have included Business Support Grants, Local Restrictions Support Grant (LRSG) in addition to business rate reliefs for Retail, Hospitality and Leisure Sector and Nurseries. There has also been a significant additional administrative burden on the team with respect to the increasing number of welfare claimants and impact on council tax support (LCTS), Southwark Emergency Support Scheme (SESS) and hardship funds.

58. Elsewhere within the department (and after excluding pressures attributable to the pandemic), a favourable variance was reported in Professional Finance Services, predominantly due to vacancies and an adverse variance was reported in Law and Governance linked to reduced billable income impacted by Covid related demand suppression.

Strategic Finance

59. Strategic Finance is reporting an adverse variance of £3.85m. Strategic Finance includes a number of budgets that are not allocated directly to departments and which are managed centrally. These include treasury management, insurance, corporate provisions, levies and a number of technical accounting budgets, such as the reversal of depreciation, that do not impact on the net budget requirement or level of council tax that the council sets each year.

Contingency

60. As referenced elsewhere in this report, the £4m contingency budget was fully utilised to offset in-year budget pressures.

HOUSING REVENUE ACCOUNT (HRA) OUTTURN 2021-22

Table 2: HRA Outturn 2021-22

	Full Year Budget 2021-22 £000	Outturn 2021-22 £000	Variance to Budget 2021-22 £000
Asset Management	57,403	59,600	2,197
New Build	400	965	565
Communities HRA	9,145	11,083	1,938
Resident Services	42,724	47,894	5,170
Directorate	1,803	1,940	137
Customer Services	7,483	8,116	633
Central Services	29,398	29,850	452
Debt Financing	30,105	23,210	-6,895
Depreciation	53,000	51,546	-1,454
Exchequer Services	9,032	8,103	-929
Tenant's Rents & Service Charges	-226,252	-223,910	2,342
Homeowner Service Charges	-33,911	-30,782	3,129
Revenue Contribution to Capital	19,670	14,602	-5,068
Appropriations to /(from) Reserves	0	-2,217	-2,217
Total HRA	**0**	**0**	**0**

61. Revenue monitoring reports to Cabinet during the year have made reference to uncertainty around the extent of unavoidable cost pressures and new commitments arising in the management and maintenance of the council's housing stock, including pandemic related exceptional costs. Whilst there has been some volatility and variation across the HRA, the final outturn shows modest improvement over the month 8 forecast. However, this has required the drawdown of £2.2m of earmarked reserves in addition to the mitigation measures outlined previously, i.e. a reduction in the revenue contribution to fund capital to match the lower major works billing, along with planned changes in financing and depreciation charges to ensure a balanced position at year-end. Cabinet are reminded that scope within the HRA to manage ever increasing resource demands has and continues to diminish and cannot be sustained indefinitely. The new requirements arising from the Building Safety and Fire Safety Acts will only serve to exacerbate the pressure on both revenue and capital resources. The key headlines and issues for 2021-22 are outlined below.

62. The repair, maintenance and renewal of the housing stock consume by far the greatest proportion of revenue resources (circa £111m including depreciation during 2021-22). Budgets are under constant pressure, notwithstanding the substantial capital investment that has and

continues to be made in the stock. There are a number of budget variances across the Asset Management division giving rise to a net overspend of £2.2m. A significant contributory factor remains the cost of works delivered in-house, comprising day to day repairs and maintenance, voids and communal works. As previously reported, costs are significantly higher and performance lower than predicated in the original business model. Implementation of the repairs improvement plan and 'right sizing' the service is crucial to increasing operational efficiency/productivity, controlling costs and achieving the higher service standards and value for money that residents expect and deserve.

63. Another area of concern is the district heat network which supplies around 17,000 homes. Ageing infrastructure is becoming increasingly problematic, causing frequent outages and requiring the use of temporary boilers at additional cost to maintain service. This also adds pressure on the heating account reserve position which is held to mitigate price and volume volatility over time. Coupled with the council's commitment to carbon reduction across the housing stock, the scale of investment required in the heat network 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 resulting in a significant budget variance.

64. By way of in-year mitigation, eligible works expenditure has been capitalised (where it complies with capital accounting criteria), in order to relieve the revenue pressure. However, this is not a long-term solution as it simply shifts the burden to the capital programme which is massively under resourced and requires review and prioritisation of the council's investment needs over an extended timeframe to ensure on-going affordability. 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 difficult to do so and cannot realistically be sustained going forward.

65. Rental and other income streams are of paramount importance for the viability of the HRA and service provision. Rent debit, void loss and collection rates are key financial performance indicators which show variation from the budget baseline. Overall, there is a shortfall in year of around £2.3m against the budgeted debit. This is principally due to delays arising from the pandemic in bringing new build stock on stream as programmed and longer void turnaround times which have adversely affected lettings and hence the debit raised. Rent collection performance during the previous year (2020-21) was inevitably impacted by the pandemic leading to higher arrears and bad debt provision. Given the continuing uncertainty, this posed the risk that it could continue into 2021-22, but on a positive note, collection has shown steady improvement over the year and is above 99%. Looking forward, it

remains to be seen what the impact of the current cost of living crisis will be on resident's ability to pay their rent and service charges and the arrears position. For reference, the HRA maintains a prudent level of provision specifically to meet collection losses/write-offs.

66. Homeowner service charges represent the second largest income stream to the HRA reflecting the proportionate costs associated with managing and maintaining properties sold under the 'Right to Buy'. A revenue charge covers general day to day operating and repairing responsibilities, whereas the capital charge covers major works. They represent actual costs incurred by the council and are fully rechargeable under the terms of the lease in order to prevent cross-subsidy from tenants. The nature and profile of the major works programme means expenditure will fluctuate year on year which correlates with the level of major works billing that can be legitimately raised in year. With the shutdown of major works projects due to the pandemic during 2020-21, the effect of that materialises in the following year's billing run (i.e. 2021-22), which is circa £3.8m lower than budget. Miscellaneous fee income is also down by circa £0.4m reflecting lower homeowner activity, offset by higher revenue service charge income of circa £1.3m following the actualisation of the prior years' accounts.

67. Central Support Services comprises non-operational service budgets such as departmental and corporate overheads, arrears/ bad debt provisions, depreciation/ revenue support for the capital programme and debt financing. With regard to the latter, unlike the general fund, there is no requirement to make a minimum revenue provision (MRP), which has fortuitously provided the necessary budget flexibility to mitigate exceptional and inherent budget pressures elsewhere across the account. This has been particularly important over the last few years, as the council has successfully navigated the water refunds issue, the government enforced rent reduction policy and other significant budget pressures without any discernible impact in service provision.

68. In 2021-22, the council needed to borrow £89.4m to fund the housing investment programme and this requirement will increase significantly over the medium-term to meet the critical investment needs of the housing stock, including building and fire safety works, the heat network, carbon reduction and the new homes programme. Therefore, what budget flexibility currently exists will be quickly eroded and necessitate a more sustainable approach to service spending to offset the higher financing costs, which are unavoidable and represent a fixed cost and first call on revenue resources. For reference, 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.

69. 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

fairer future medium-term financial strategy (FFMTFS). In the context of the size of the council's HRA and HIP with combined annual turnover of circa £500m+, reserves remain below what is considered the optimal level and it has been necessary to drawdown £2.2m during the year to balance the operating account, leaving £26.1m as at 31 March 2022. The challenge as ever remains to build a more prudent and sustainable level of reserves going forward.

Collection fund

70. The Collection Fund represents the accumulated surplus or deficit for business rates and council tax. Both taxation schemes are designed to be self balancing; an estimate of any accumulated surplus or deficit is made each year and factored into the following year's tax requirement. Any difference between estimated and actual outturn will be received or borne by taxpayers in the following year.

71. Monies received into the Collection Fund are distributed between the council and its preceptors based on their respective shares. Whilst the Collection Fund is a single entity, for reporting purposes it is split between Council Tax and Business Rates.

72. These accounting arrangements have had an exceptional outcome in 2020-21 and 2021-22 due to the circumstances relating to the pandemic. The financial downturn has caused collection rates to be substantially lower than those that were predicted. In addition, after the estimated receipts for 2020-21 were fixed, the Government introduced emergency rate reliefs for particular business sectors. In the cases of both reduced collection rates and emergency rate reliefs, the Government has implemented grant schemes to compensate authorities for the lost income.

73. Regulations require any deficit accumulated in 2020-21 to be spread over three years. In 2021-22, the in-year surplus on the NNDR account reduces the overall deficit from £144.5m to £107.2m. The deficit, after taking into account additional Section 31 grant, will be further spread across 2022-23 and 2023-24. Under the governments Tax Income Guarantee (TIG) methodology, the council has also received additional funds to further mitigate the deficit.

74. The in-year deficit on the Council Tax collection fund for 2021-22 is £3m with the councils share being £2.3m. Again, government funding is being used both to smooth the impact of this across multiple years.

Earmarked Reserves

75. The council retains a level of earmarked reserves which are reported each year within the annual statement of accounts. These reserves are maintained to fund:

- invest to save opportunities, which form part of the modernisation agenda and are expected to deliver future ongoing revenue savings;
- investment in regeneration and development where spend may be subject to unpredictable market and other factors;
- exceptional items or pressures which are difficult to predict and which are not included in revenue budgets or within the capital programme.

76. The outturn position on earmarked reserves remains abnormal due to the carry forward into 2021-22 of £54m of specific COVID-19 funding set aside to meet costs to be defrayed in 2021-22 and in future years. Whilst the remaining Covid reserves at the end of 2021-22 are much reduced (in line with reducing pressures), some residual amounts remain to offset a limited number of ongoing activities.

Table 3: Covid-19 Reserves

	Opening Balance £'000	**Movement £'000**	**Closing Balance £'000**
Covid-19 reserves	53,425	-27,553	25,872

77. Included within these resources are:

- £22.6m of specific COVID-19 funding relating to council tax and business rates that must be set aside to meet costs that will be defrayed in 2021-22 and future years. These resources are not available to support the provision of services;

- £2.2m of the Contain Outbreak Management Fund (COMF) for ongoing preventative work.

- £1.1m for measures to support recovery including £0.5m for town centres and high streets and £0.6m for supporting those classified as Clinically Extremely Vulnerable.

78. As indicated in the table below, the net movement on reserves is an increase of £3.6m.

Table 4: Summary of Earmarked Reserves

	Opening Balance £'000	Movement £'000	Closing Balance £'000
Corporate projects and priorities	15,514	3,362	18,876
Service improvements and reviews	24,218	10,336	34,554
Capital programme reserves	28,403	8,320	36,723
Strategic Financial Risk Reserves	61,824	3,773	65,597
Technical and smoothing reserves (incl. C19 reserves)	74,654	-22,164	52,490
Total earmarked reserves	**204,613**	**3,627**	**208,240**

79. For a number of years previously the council had planned for the use of reserves to help smooth the impact of government funding reductions and other budget pressures, especially during the period of austerity. Not only did this help to protect council services but it has also allowed time to transition towards new ways of working, productivity improvements and efficiencies. There were no budgeted contributions from reserves in 2020-21, however £5m was earmarked to meet the budgeted contribution in 2021-22 and a further £2.5m to help mitigate the forecast deficit in 2022-23.

80. In addition, resources have been earmarked to mitigate and manage anticipated funding shocks arising from funding reforms, and, in particular the planned business rate reset. These reserves would be needed to ensure a smooth transition over the forthcoming medium term financial planning period.

81. Other notable sums that have been earmarked during 2021-22 include:

- Replenishing the Southwark Emergency Support Scheme (£4m) and the Food Poverty reserve (£0.294m)
- £4m to mitigate post-Covid social care demand
- £2.4m for one-off implementation costs associated with insourcing the Council's Leisure service
- Amounts to mitigate the impact of economic distress including fuel Inflation across the council estate (£1.5m) and contractual risks (£1m).

82. The total movement in earmarked reserves are detailed in Appendix B.

General Fund Balance

83. Unallocated reserves are a key indicator of an authority's ability to cope with financial shocks. The CIPFA Financial Resilience Index places significant emphasis on this as an indicator of 'high risk'. Building

financial resilience is imperative as we navigate our path to recovery and ensure that the council is well placed to meet future financial challenges.

84. The balance on the General Fund has been increased by £1.4m to £22.4m in closing the 2021-22 accounts, in line with the policy to maintain a minimum balance equivalent to 2.5% of gross revenue expenditure.

Treasury management

85. As at 31 March 2022 the outstanding debt held by the council was £896m (£886m as at 31 March 2020), an in year increase of £10m.

86. The council's debt management strategy since 2011-12 has been to pursue a policy of internal borrowing, which is the use of existing reserves and balances to temporarily fund capital expenditure rather than the use of external borrowing. By doing so, the council has been able to minimise net borrowing costs (despite foregone investment income) and reduce overall treasury risk. However, since 2017-18, it has also been necessary to undertake new external borrowing in order to maintain target cash balances and support the council's ambitious and accelerating house building programme. Council officers are reviewing the strategy in light of current macro-economic conditions and will provide a full update via the treasury update report to Council Assembly in November 2022. It is likely that significant additional sums of long-term borrowing will need to be taken in the near future in order to finance the capital programme and protect the council from interest rate and re-financing risks.

87. In accordance with the approved treasury management strategy, the council borrowed £50m from the Public Works Loans Board (part of HM Treasury) during 2021-22, with maturity terms ranging from 39 to 41 years at an average interest rate of 1.6%.

88. At 31 March 2022 the council had short term loans from other local authorities of £175m. Local authority to local authority lending is common practice for short term lending since interest rates remain cheaper than those offered by the PWLB and lenders like the security of investing 'within the local authority sector'.

89. The council maintains sizable investment balances, representing income received in advance of expenditure plus balances and reserves held. Investments as at 31 March 2022 were £161m (£219m at 31 March 2021). The drop in balances relative to the prior year is largely linked to the substantial Covid 19 grants received in advance and subsequently used or repaid as required by the grant conditions during the 2021-22 year.

90. Council resources that are not immediately required for current expenditure are invested in money market instruments in accordance

with the DLUHC Guidance on Local Authority Investments and the approved investment strategy. The DLUHC guidance gives priority to security and liquidity and the council's aim is to achieve a yield commensurate with these principles.

91. The rate of return for council treasury management assets for the 2021-22 financial year was -0.05%. This is reflective of the low-rate environment that prevailed for most of 2021-22 and the swift and severe decline in financial markets in Q4. In line with the treasury management strategy, the council benchmarks its fund managers to measure and manage performance. Whilst fund manger return for 2021-22 was -0.12%, this is better than the relevant index which saw performance of -0.51% over the same period.

92. 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

93. 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

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

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and Resources Strategy 2021-22 – revenue budget: Council Assembly 24 February 2021.	160 Tooley Street PO Box 64529 London SE1P 5LX	Tim Jones 020 7525 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 January 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 A	Interdepartmental budget movements to be approved for month 4 onwards
Appendix B	Analysis of Reserve Movements by Department
Appendix C	Earmarked Reserves at 31 March 2022

AUDIT TRAIL

Cabinet member	Councillor Stephanie Cryan, Finance, Democracy and Digital	
Lead officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report author	Tim Jones, Departmental Finance Manager	
Version	Final	
Dated	5 July 2022	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments included**
Director of Law and Governance	Yes	Yes
Strategic Director of Finance and Governance	N/a	N/a
Cabinet Member	Yes	Yes
Date final report sent to constitutional team		5 July 2022