Item No. 8.	Classification: Open	Date: 13 September 2022	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy: revenue monitoring report, including treasury management month 4 2022-23	
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 forecast position for the general fund, housing revenue account and dedicated schools grant for the 2022-23 financial year.

The council is recovering from the Covid-19 pandemic position, budgets are returning to a more normal basis, without the complication of assessing additional pandemic costs and compensatory government grant income. But there remains some residual costs and lost income relating to the pandemic.

The council has now entered a period of significant economic uncertainty with unprecedented levels of inflation and rising interest rates. Local government funding for 2022-23, was predicated on inflation forecasts of around 4% but these have proved to be far too low, as inflation is currently over 9% and rising. This has a significant impact on local councils' base budgets which will now be understated and unless these are fully updated for inflation will create a shortfall in council funding across the board.

We expect to see continued budget pressure in adult and childrens' social care and in homelessness and temporary accommodation, which are likely to worsen as inflation is set to continue to rise over the course of 2022-23. Similarly, there are a number of significant budget pressures in the housing revenue account including the increasing cost of maintaining existing homes, increased energy costs and the increased levels of debt to finance the new homes programme which is further exacerbated by rising interest rates.

In this monitoring report, the current budget pressures are mainly a result of increased demand for services and reduced income (£8m), inflationary pressures (£1m) and pay pressures (£2m).

We have had a period of inertia from the Government during the Conservative Leadership election and this has meant that no action has been taken centrally to provide any reassurance to Local Authorities that inflationary costs will be factored into the funding settlement later this year. We continue to keep a close eye on the current budget pressures and will continue to lobby the Government

for the base budget to be uplifted to mitigate the inflationary pressures we are currently experiencing.

RECOMMENDATIONS

That cabinet notes;

1. The adverse variance forecast for the General Fund in 2022-23;

2. That no additional COVID-19 funding has been made available to councils in 2022-23 and that all ongoing expenditure has been included within the forecast;

3. The key adverse variations and budget pressures;

   (i) The Dedicated Schools Grant (DSG) is forecasting an in-year pressure of £3.1m, in addition to the £21.7m accumulated deficit brought forward;

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

   (iii) The emerging budget pressures in Adult Social Care, mitigated by the use of resilience reserves;

   (iv) The continuing budget pressures on Temporary Accommodation;

4. The ongoing inclement macro-economic environment, with inflation running above 10.1% and interest rates at their highest rates since 2009;

5. Any pay settlement above the budgeted 2% will add pressure of £1.7m per percentage point (with 3% currently assumed in the month 4 forecast);

6. The housing revenue account forecast for 2022-23 (Table 2, paragraphs 66-77);

7. Treasury management activity undertaken in 2022-23 (paragraphs 81-88)

That cabinet approves;

8. The interdepartmental budget movements that exceed £250k, as shown in Appendix A (noting those under this threshold);

BACKGROUND INFORMATION

9. This report sets out the forecast position for the General Fund, Housing Revenue Account and Dedicated Schools Grant for the 2022-23 financial year.

10. The council agreed a balanced General Fund budget of £293.2m on 23 February 2022 based on a 2.99% council tax increase. The Policy and

Resources Strategy for 2022-23 assumed that reserves of £2m would be used to support the budget.

11. The council also approved budget decisions which included efficiencies, savings and additional income generation of £15.8m within the General Fund for 2022-23. Performance on achieving these savings is closely monitored and any significant variances are included in departmental narratives.

12. The cabinet agreed a balanced housing revenue account (HRA) budget on 18 January 2022.

KEY ISSUES FOR CONSIDERATION

General fund overall position

13. The forecast outturn projections in this monitoring report are subject to significant economic uncertainty. Rising prices has an adverse impact on local council budgets as the cost of providing services increases. Similarly, increases in food and energy prices for residents will have a larger impact on the poorest households. This in turn, will increase demand for council services to support those most vulnerable.

14. There is likely to be shift in government policy from a change to the Conservative Party leader. Tax reductions may add to the current inflationary pressures, prompting the Bank of England to increase interest rates. Interest rate increases will further increase the cost of council borrowing. Furthermore, long-term tax cuts would be difficult to sustain at the same time as an increasing demand for public services, the impact of climate change and wider geopolitical risks. The potential shift in government policy also creates yet more uncertainly about the timing and nature of the proposed reform of local government finance.

15. The forecast outturn position for the general fund is an adverse variance of £10.3m after the utilisation of reserves, as set out in Table 1 below. This table shows the projected departmental budget outturn variances together with the estimated utilisation of reserves as at the end of 2022-23.

Table 1: 2022-23 General Fund Forecast Month 4

General Fund	Original Budget	Budget Movement	Revised Budget	Net Spend in Year	Variance before use of reserves	Forecast reserve movement	Total use of resources	Variance after use of reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Children & Families	67,317	(2,300)	65,017	66,644	1,627	(180)	66,464	1,447
Adult Social Care	77,710	2,300	80,010	82,501	2,491	(2,491)	80,010	0
Commissioning & Central	5,017	0	5,017	5,493	476	0	5,493	476
Education	19,526	0	19,526	23,642	4,116	(1,226)	22,416	2,890
Children & Adults (excl. DSG)	**169,570**	**0**	**169,570**	**178,280**	**8,710**	**(3,897)**	**174,383**	**4,813**
Environment & Leisure	91,554	227	91,781	94,320	2,539	(1,472)	92,848	1,067
Housing & Modernisation	63,090	2,128	65,217	65,540	323	2,339	67,879	2,662
Chief Executive's	1,791	(256)	1,535	2,617	1,082	(537)	2,080	545
Finance & Governance	21,319	150	21,469	22,661	1,192	0	22,661	1,192
Public Health	0	0	0	0	0	0	(0)	0
Strategic Finance	(13,669)	(2,249)	(15,918)	(15,918)	0	0	(15,918)	0
Support Cost Reallocations	(42,341)	0	(42,341)	(42,341)	0	0	(42,341)	0
Contingency	4,000	0	4,000	4,000	0	0	4,000	0
Contribution from Reserves	(2,078)	0	(2,078)	(2,078)	0	0	(2,078)	0
Month 4 Forecast	**293,236**	0	**293,236**	**307,082**	**13,846**	**(3,567)**	**303,515**	**10,279**
								-
DSG overspend				**-**		**(3.10)**	**(3.10)**	**(3.10)**

16. The UK has now entered into a period of high inflation which has dramatically increased over the course of 2022 and been exacerbated by Russia's invasion of Ukraine. The Bank of England now expects inflation to reach over 13% in October 2022, with the Office for Budget Responsibility expecting that inflation will not begin to fall until the third quarter of 2023. This has serious implications for delivering services within current budgets.

17. Elsewhere, underlying demand-led pressures continue in several areas such as adult and childrens' social care and temporary accommodation, homelessness and within the housing revenue account. These variances are described in more detail in the narrative below.

18. Appendix A attached to this report provides more detail on the in year budget movements by each department.

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

CHILDREN'S AND ADULTS' SERVICES

20. Children's and Adults' services is forecasting an adverse variance of £4.8m after reserve transfers have been taken into account. The combined effect of inflationary pressures, the aftermath of the pandemic and the cost of living crises especially affects key services within the department. The key areas of concern affecting the general fund include children's social care due to continuing pressures in staffing, increased demand in key care packages in adult social care, as well as increased pressure on Special Education Needs (SEN) transport. The Dedicated Schools Grant (DSG) is forecasting an adverse variance of £3.1m mainly

driven by an increased demand for services for pupils and students with high needs. The department has significant reserves built up over the last few financial years to withstand some of the challenges and continues to practice strict financial management across the areas. The forecast for Children's and Adults' Services includes an inflationary increase of 3% for staffing and the agreed annual price review increases for providers.

Adult Social Care

21. The Adult Social Care division is forecasting an unfavourable variance of £2.5m before reserve movements are taken into account. This variance is mainly driven by increased inflation as well as post-pandemic related pressures especially in care package expenditure such as homecare, nursing and reablement spend. In previous years, additional one-off government funding has offset some of these pressures.

22. In order to ensure expenditure is bought back in line, the service is introducing a number of actions, such as the introduction of targeted reviews of care packages, in addition to annual reviews, which will seek to reduce care packages where possible, making use of technology and universal provision and support. Senior management will oversee and manage all these resource panel processes and decision making. The service will work on mitigating reablement home care provision spend by working closely with Guy's and St Thomas Trust (GSTT) colleagues to look at the referral criteria with a view to increasing efficiency within the provision. We are also aiming to use our limited Occupational Therapy resource to review all complex care packages that require two carers with a view to promote the use of equipment to support mobility and transfers. The service has a track record of good financial management in partnership with finance, Human Resources (HR), commissioning and procurement colleagues which will have to continue in order to ensure financial sustainability in future years.

23. The introduction of the 'Fair Cost of Care' policy, with consequent changes to the care cap threshold, is also expected to bring additional financial burden to the service in 2022-23 and in future years. While the government announced additional funding for adult social care reform over the period of 2022-23 to 2024-25, the sector is not yet clear on how these changes will take effect or the full cost of these changes. As well as increased placements costs, it is expected that these changes will lead to increased staffing costs and IT implementation costs in future years.

Children's Social Care

24. Children's Social Care is forecasting an adverse variance of £1.4m after reserve movements has been taken into account. The underlying key cost drivers within the division is staffing. There has been a trend of reduced placements costs in some areas however rising numbers of unaccompanied asylum seeking children in the borough are likely to present more 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

25. The Commissioning division is forecasting an adverse variance of £0.48m. 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 to establish a permanent staffing structure that will be able to support the needs of the department.

Education

26. Education services is forecasting an adverse variance of £2.9m after proposed reserve transfers have been taken into account. The reserve transfer relates to specific earmarked reserves such as the Improving Mental Health and Resilience Scheme (IMHARS) and the scholarship scheme. The home to school transport service remains the key medium to long-term driver for financial pressures on the education general fund. The forecast takes into account a 9% contractual increase in inflation costs transport services as well as increased demand for the service. Implementation of the independent travel training, promoting direct payments as well as further reviews of the 16-25 transport commitments are a current priority in mitigating the pressure on the budget. This sits within a wider review of Special Educational Needs and Disabilities (SEND) to better manage costs and demand for SEND provision. The service continues to provide additional support to all schools and supports children's and families with an enhanced offer of free school meals during school holidays through funding from the Household Support Grant.

Dedicated School Grant

27. The ring-fenced Dedicated Schools Grant (DSG) is forecasted to achieve an unfavourable variance of £3.1m, which is mainly due to the higher than expected demand on the high needs service. This would bring the accumulated deficit on the balance sheet to an accumulated £24.8m by the end of this financial year.

28. 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. 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 a balanced in year position will be affected

by the fluctuations in demand for Education and Health Care Plans (EHCP's) as this is a highly demand led service area.

29. It has been recognised that departmental support is needed to tackle the accumulated deficit positon. The council is currently in negotiations with the Department of Education (DfE) regarding the management of the accumulated DSG deficit as part of the DfE's 'Safety Valve' programme. The key to an agreement will be to ensure an 'in year' balanced position is achieved. This will be very challenging and will mean all aspects of the service provision will need to be reviewed. The service in conjunction with the High Needs sub-group of the School's Forum, HR and Commissioning are working to develop detailed action plans which underpin recovery. The SEND strategy that is due to be submitted to cabinet in September has bearing on the response to the DfE.

30. In addition, 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 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. A further report on the council's strategy to manage the school estate will be presented at Cabinet in September 2022.

ENVIRONMENT AND LEISURE

31. Given the nature of services provided by the department, the impact of the current economic situation on income streams and the cost base have become especially unpredictable. In these circumstances an adverse variance for the year of £1.067m is being projected at this time after net transfer of reserves totaling £1.5m.

32. The projected outturn position takes into account the backdated costs of £836k for changes to overtime pay, including the London weighting allowance, for those employees on Southwark grades 1-8, for the period 2015-16 to 2018-19. These costs are currently subject to review by the Strategic Director of Finance and Governance in the context of the overall financial position with a view to covering from council contingency or financial risk reserves. This position will not be known until later in the financial year.

33. The departmental pay costs has been budgeted at 2% pay inflation but the forecast includes a cost pressure of £380k for the assumed pay settlement at 3%. The projections will be updated once the 2022-23 pay settlement has been agreed although this again is not likely to be finalized for some months.

34. The above cost pressures are to a large extent beyond management control and if these costs are excluded, the outturn projection for the department is within budget with a favourable variance of £149k.

Environment

35. Over the last two years, the Council has introduced a number of Streetspace schemes across the borough. These have been designed to achieve a number of objectives including the need to increase opportunities for people to move safely around the borough reducing the reliance on motor vehicles, in turn mitigating the impacts of climate change.

36. The schemes initially were introduced using temporary measures and have been through extensive public consultation over the past 12 months to ensure that any permanent measures incorporate the views of all whist ensuring that the long term objectives and benefits are achieved. Through this engagement process amendments have been made to schemes incorporating this feedback, most notably in Dulwich where there has been a reduction in road closure hours from 5 hours per day to 2.5 hours per day.

37. As the schemes continue to be a success across the borough following significant improvement in compliance of drivers which is resulting in a reduction in PCNs issued for non-compliance. This shift in behaviour change is encouraging given the over long term objectives of the scheme. As a result of the success of the schemes and amendments made to enforcement times, there has been a reduction in income for the first quarter.

38. Income collection from the 'late night levy' has continued to recover well after the operating restrictions in place during the Covid-19 pandemic. However, income from temporary street market licences has not recovered as quickly as anticipated, and it's currently projected that the council will receive £213k less than budgeted for this year. The council will continue to support Southwark's street businesses recover from the pandemic, recognising the important contribution that markets make to the local economy.

39. Inflationary increases in the cost of materials and sub-contractor rates, exacerbated by higher energy costs, have created a projected overspend of £112k in the traded services department. The council will continue to monitor the impact of inflation on service costs.

Leisure

40. The leisure insourcing team are currently coordinating the numerous activities involved in bringing the leisure management services in house and operational from June 2023. These activities include the recruitment of key operational and management staff to manage the in-house service

and to implement the IT systems to ensure the service is fully integrated into the Council's financial and other systems. A one off mobilisation budget of £2.4m has been previously agreed for this process.

41. The leisure insourcing team are also carrying out a detailed budgeting and costing exercise to ensure the net cost of operating the service can be contained within the £2.6m budget set aside for the service.

42. The libraries service is projecting less income than expected of approximately £250k due to reduced library fees income and room bookings. Again, there is slower than expected recovery from the effects of the pandemic.

Climate Change, Sustainability and Business Development

43. The Environment and Leisure department have embarked on an extensive change programme to ensure that it is fit for the future and to meet the challenges of financial pressures and the economic and social recovery that is needed following Covid. £272k of the cost is expected to be met from earmarked reserves set aside for this purpose.

44. There is a budget pressure of £111k projected in the Sustainability and Business Development unit due to agency staff costs. Permanent recruitment is being undertaken as part of the restructure process to ensure that the use of agency staff is for a short period only.

Communities

45. The council are supporting the Afghan and Ukrainian refugees through the government's resettlement scheme. To date the council has assisted 221 Ukrainian families and 127 Afghan refugees. It is expected that the cost of these schemes will be contained within the total central government grant of approximately of £5m.

46. The directorate is not forecasting any immediate budgetary pressure at this stage, however there are risks if the current 'host family' arrangement for the initial six months period, is not continued and if those refugees who came to the UK on family visas, are unable to secure housing with their families. This additional demand on the council to provide housing to those affected by the above circumstances, would lead to a significant pressure on the 'No Recourse to Public Funds' budget.

47. A further pressure on the No Recourse to Public Funds budget is likely from those EU citizens who have not managed to secure legal status to reside in the UK due to Brexit.

Public Health

48. The Public Health directorate has been at the forefront of tackling the COVID 19 pandemic at a local level and received funding from the Contain Management Outbreak Fund (COMF) and other Covid-19 related grants. At the height of the pandemic, the directorate experienced a fall in demand for some services resulting in underspends which were transferred to the Public Health Reserve. The service is gradually returning to pre Covid-19 volumes of activity and the Public Health directorate is expected to breakeven against the ring-fenced Public Health grant at year end.

Housing and Modernisation (H&M) – Month 4 General Fund Outturn Forecast 2022-23

Overview

49. The headline forecast for 2022-23 shows an adverse variance of £0.3m. However, this includes an exceptional one-off windfall saving on concessionary travel detailed below. This windfall saving will be placed in the economic risk reserve to be used to support macroeconomic risks (paragraphs 16-17). Excluding this windfall, the underlying projected overspend is, therefore, estimated at £3.1m, primarily reflecting the unrelenting cost pressure of homelessness provision and the ongoing cost of the measures put in place in response to the pandemic, some of which will continue for the foreseeable future. Energy cost pressures in the Corporate Facilities Management team will be mitigated by the windfall saving (paragraph 53) which will reduce the projected overspend to £2.7m.

Resident Services - Temporary Accommodation (TA) and Housing Solutions

50. There remains a strong underlying demand pressure in Southwark for temporary accommodation, which has been exacerbated by the pandemic. This is driven by a 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 the number of households in TA has increased (an average of 115 more cases than in 2021-22), the position does show signs of stabilising, but remains unpredictable. There is also a weakening on the supply-side which creates cost pressure elsewhere in the system and delays discharge of duty, due to lack of suitable accommodation.

51. For 2022-23 Cabinet approved a £4m base budget commitment for Temporary Accommodation and the Housing Solutions service, which goes some way to aligning budgeted resources with the underlying cost base. A further £2m was approved to be held in corporate reserves, in the event of any cost overrun. Cabinet will be aware that a Budget Recovery

Board (BRB) has been established to review all aspects of the service with a view to improving efficiency and containing costs within the allocated resources. The BRB are exploring a number of areas where cost savings may be realised which will help mitigate any call on the reserve at year-end. However, at this juncture, the forecast shows a pressure of £1.6m over budget, assuming activity and costs remain relatively stable over the remainder of the year and notwithstanding the risks associated with the cost of living crisis that may impact on homelessness.

Customer Services – Technology and Digital Services (TDS)

52. Overall, the cost of TDS delivered in partnership via the Shared Technology Service (STS) is currently showing a non-recurring favourable variance of £0.4m, reflecting the on-going migration from data centres to a cloud computing environment with Azure and upgrading to Office 365. This is critical to delivering greater operational efficiency and resilience in the longer-term. The service continues to build on the smart working changes accelerated in response to the pandemic, which 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.

Customer Services - Concessionary Travel

53. London boroughs contribute to the pan-London concessionary travel scheme based on journey data for the previous two years to calculate the contributions due from each borough. Given the restrictions introduced during the pandemic and subsequent slow recovery of public transport usage, this has significantly impacted the costs payable by boroughs. For Southwark the reduction is £2.77m which is a one-off windfall for 2022-23. The expectation is that journey numbers will continue to increase back to pre-pandemic levels and combined with the impact of rampant inflation, budget provision may well need to be increased over existing levels in the medium-term. This windfall will therefore be prudently placed in the economic risk reserve for future spend and to alleviate current energy price increases in CFM (paragraph 49)

Asset Management - Corporate Facilities Management (CFM)

54. CFM is responsible for managing the council's operational estate, ensuring that buildings are compliant with health and safety regulations and 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 and PPE together with additional cleaning and security services creating a continuing budget pressure of £1m.

55. 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. As the restrictions necessitated by the pandemic subside, there remains some

caution around the delivery of the planned investment programme and therefore a reduction in fee income of £0.2m is forecast. With inflation running at record levels, particularly energy prices, CFM holds the utilities budget for some of the key operational sites in the borough and forecasts a budget pressure of £0.4m for electricity. This energy cost pressure will be offset from the use of the economic risk reserve (paragraph 49).

56. Earlier this year, CFM completed a major procurement for hard and soft facilities management services under a new single contract, which is due to go live on 1 October 2022. Some of the council's cleaning requirements at Tooley Street and Queens Road have been removed from the procurement and are to be delivered in-house running alongside the contract. As a result there has been a need to retain key external professional support to not only help mobilise the new contract, but also manage a number of other smaller scale procurements in relation to other corporate provision for which CFM is responsible. This creates a net staffing cost pressure of £0.1m.

Central Services

57. Budgets held within this activity are of a department-wide nature including corporate overheads/recharges and costs that are not specifically attributable to a particular service, for example, financing and depreciation charges, which are forecast at £0.1m lower than budget. For reporting purposes, the budget and spend forecast relating to Private Sector Building Safety is included in Central Services on this occasion, pending relocation to Asset Management in the next reporting cycle.

CHIEF EXECUTIVES DEPARTMENT

58. The department is currently projecting an adverse variance of £546k at year end after the expected transfer of reserves of £537k relating to budget pressures within Human Resources and Organisational Development which will be funded from earmarked reserves.

59. The departmental pay costs has been budgeted at 2% pay inflation but the forecast includes a cost pressure of £155k for the assumed pay settlement at 3%. The projections will be updated once the 2022-23 pay settlement has been agreed.

60. The above cost pressures are beyond management control and if these costs are excluded, the outturn projection for the department is a revised adverse variance of £391k which are due to budget pressures in planning fee income and property budgets. The position will be monitored closely and any changes will be incorporated into the next revenue monitoring report to cabinet.

FINANCE AND GOVERNANCE

61. The Finance and Governance department, including Benefits and Subsidy

and Pensions Administration is projecting an adverse variance of £1.2m.

62. During the first quarter of 2022-23, Exchequer Services continues to have a significant administrative burden as additional grant schemes have been introduced such as energy rebate schemes and cost of living support schemes. Additional postage costs as a result of an increase of postage costs themselves as well as a greater volume following the pandemic. The service has provided significant HR and payroll support in Q1, which has incurred significant contractual costs as well as the delivery of the review of the Council's Enterprise Resource Planning system.

63. This potential overspend will be monitored closely to see what mitigating actions can be taken before the year end.

64. An adverse variance was also reported in Law and Governance linked to reduced billable income. This is currently being reviewed and will be reported in the next cabinet monitoring report.

Contingency

65. The £4m contingency budget is assumed to be fully utilised to offset in-year budget pressures.

HOUSING REVENUE ACCOUNT (HRA)

Table 2: HRA Month 4

Housing Revenue Account - M4 Monitor 2022-23	**Full Year Budget 2022-23**	**Outturn 2022-23**	**Variance 2022-23**
	£000	£000	£000
Asset Management	63,266	62,751	-515
New Build	385	726	341
Resident Services (incl. Ex Communities)	53,727	58,382	4,655
Directorate	1,885	1,849	-36
Customer Services	7,003	7,219	216
Central Services (incl. Heating Account)	29,280	39,048	9,768
Debt Financing	30,105	27,500	-2,605
Depreciation	53,000	51,800	-1,200
Exchequer Services	9,108	8,844	-264
Tenant's Rents & Service Charges	-232,595	-232,645	-50
Homeowner Service Charges	-34,876	-35,509	-633
Revenue Contribution to Capital	19,712	16,964	-2,748
Appropriations to /(from) Reserves	0	-6,929	-6,929
Total HRA	**0**	**0**	**0**

66. This forecast is based on recent volume and activity data, incorporating known cost pressures and commitments in the provision of the council's

landlord services. At this point in the financial year there are a number of variables and uncertainties to contend with, not least the impact of inflation and energy costs that cannot be fully quantified, therefore the forecast remains subject to change and should be viewed with a degree of caution. The position will be kept under review and any movements reported in subsequent monitoring reports. The underlying position is a negative variance of £15m (gross) which includes an exceptional £5.8m adverse movement due to energy costs in the district heating account. The position is partially off-set by service underspends across the HRA and a combination of other measures comprising reductions in debt financing, revenue contribution to the capital programme and a drawdown from reserves, to ensure a balanced position at year-end. Cabinet is advised that scope within the HRA to manage ever increasing resource demands is rapidly diminishing and cannot be sustained indefinitely without prioritisation of service provision moving forward.

67. As previously reported, the repair and maintenance of the housing stock consumes by far the largest proportion of operating resources. There has been significant budget growth over recent years within the Asset Management division, circa £9m since 2019-20 and a further £5.9m in 2022-23) to address key cost drivers such as disrepair, voids and the in-house repairs service and meet new and emerging demands in terms of building/fire safety. Implementation of the strategic business improvement plan remains crucial to improving operational efficiency/productivity, controlling costs and achieving the higher service standards and value for money that residents expect and deserve.

68. Budget pressures similar to those experienced in prior years remain in the Resident Services division, which is forecast to be £4.7m over budget, despite approved growth of £1.6m in 2022-23. The use of estate voids for temporary accommodation is running at a higher rate (82 placements currently) and unit cost than originally predicated. In addition inflationary pressure across voids and internal repairs has driven the forecast overspend to £1.6m, and a task force has been established to review placements and address the situation. The cost of communal electricity is also projected to be significantly overspent (currently estimated at £1.1m), which will impact resident's service charges going forward. The position also includes a one-off payment of £0.6m for backdated overtime for estate cleaners for the period 2016-17 to 2019-20, together with the completion of the Great Estates works programme of £1.1m, which will be covered through reserves carried forward specifically for this purpose.

69. Subject to meeting strict eligibility criteria, works expenditure is routinely capitalised to mitigate the revenue budget. However, the corollary is that it adds further pressure on the capital programme which is itself under resourced and requires major prioritisation and re-profiling, over an extended timeframe to remain affordable. A key business plan objective under the self-financing regime began in 2012, has been to support the capital programme through revenue contributions, but this has become increasingly more difficult to achieve in recent years and the budget

cannot realistically be sustained at the existing level going forward. The forecast is currently predicated on there being a reduction in the contribution of £2.7m in 2022-23.

70. The viability of the HRA is entirely dependent on rental and other income streams for the continued provision of landlord services. Rent debit, void loss and collection are key financial performance indicators and are monitored closely. Currently, these indicators are tracking broadly to budget in global terms and have substantially recovered to pre-pandemic levels. However, this remains an area of significant risk given the potential impact of the cost of living crisis on residents' ability to pay. The pandemic has had an adverse effect on arrears which has necessitated higher bad debt provisions to be made in recent years. The HRA has and continues to maintain a prudent level of provisions to meet collection losses/write-offs and currently estimates that the full budgetary provision will be required this financial year, and will therefore be unavailable to mitigate budget pressures elsewhere in the HRA.

71. 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. The nature and profile of the major works programme means expenditure is not linear from year to year leading to volatility in amounts billed between years which is to be expected. However, this has been exacerbated by the pandemic, for example, in 2021-22 billing was around £3m lower than budget reflecting contract delays as sites were shutdown, whereas the forecast is currently on target to meet the budget this year. Fee income is forecast to be lower than budget by up to £0.4m reflecting lower homeowner activity, offset by higher revenue service charge billing of £1m.

72. Central Services comprises non-operational service budgets such as departmental and corporate overheads, arrears/bad debt provisions, the ring-fenced district heating account, revenue support for the capital programme and debt financing. With regards the latter, unlike the general fund, there is no requirement to make a minimum revenue provision (MRP) in the HRA, which has over an extended period provided the necessary flexibility to mitigate budget pressures and exceptional events across the wider HRA.

73. However, the recent and continuing acceleration in the council's debt level, predominantly to finance the new homes programme has driven the revenue financing requirement substantially higher (indicative estimate £4m for 2022-23). This will continue to rise as the investment demands on the HIP increase further and erode what revenue flexibility currently exists to the point where budget growth will be required in the short-term (two years maximum). This pressure will only be further exacerbated by rising interest rates making the cost of borrowing more expensive and consuming a greater share of HRA resources to the detriment of other

service priorities. 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.

74. Cabinet will recall that at the time of HRA budget setting for 2022-23, it was agreed to cap the increase in district heating charges in line with rents at CPI+1% (i.e. 4.1%); the intention being to manage short-term exposure to the exceptional market volatility being experienced and allow time for markets to stabilise. Clearly this has not materialised and the situation has been further exacerbated by the conflict in Ukraine.

75. LASER, who procure energy on behalf of over a hundred public sector organisations can buy gas contracts up to four years in advance and have locked in prices until April 2023 which to some extent provides protection from further price rises during this financial year. However, indicative figures to date show the additional cost of gas and electricity for the district heating network is £5.8m more than the average cost of energy over the last four years, after factoring in homeowner charge recovery. These estimates need to be caveated pending further detailed analysis and the benefit of further actual cost information for the second quarter. It also assumes average consumption over the winter period but that remains a variable that cannot be assessed at this point. One positive to note is that the use of oil in temporary boilers will be markedly lower this year following capital investment to replace ageing and unreliable boilers and heating infrastructure.

76. Whilst there could be no guarantee at that time that prices would stabilise, the position can be mitigated in the short-term through the application of earmarked reserves set aside for this purpose. However, based on current estimates the reserve would be largely exhausted and would need to be replenished through charge increases. Cabinet further determined that depending on how energy prices moved during 2022-23 to consider a mid-year charge increase for tenants to reflect those price movements, and this remains an option going forward.

77. 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 2022 earmarked reserves stood at £26.1m (previously £28.3m). The downward movement is undesirable but was necessary to ensure the HRA was balanced for 2021-22. Similarly, a further reduction of £6.9m is currently forecast for this year. Cabinet should be aware that in the context of the size of the council's HRA and HIP spending (circa £500m to £600m per annum), reserves are below the optimal level considered prudent and present a risk which needs to be managed over the medium-term with a view to building a greater level of sustainability going forward.

General Fund Earmarked Reserves

78. The council retains a level of general fund 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.

79. The council's earmarked reserves are grouped thematically and details of the opening balance, expected movements and closing balances are shown in the table below;

Table 3: Summary of Earmarked Reserves

	Opening Balance £'000	**Forecast Movement £'000**	**Closing Balance £'000**
Corporate projects and priorities	18,876	(362)	18,515
Service improvements and reviews	34,554	(4,344)	30,210
Capital programme reserves	36,723	(1,200)	35,523
Strategic Financial Risk Reserves	65,597	2,339	67,936
Technical and smoothing reserves (incl. C19 reserves)	52,490		52,490
Total earmarked reserves	**208,240**	**(3,567)**	**204,673**

80. 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. The council used £5.8m of reserves to help fund the budget in 2021-22, reducing to £2m for the 2022-23 budget.

Treasury management

81. As at 31 July 2022, outstanding debt held by the council was £943m (£896m as at 31 March 2022), an in-year increase of £47m.

82. The council's debt management strategy has historically 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 so doing, 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 undertaken in the near future in order to finance the capital programme and protect the council from interest rate and re-financing risks.

83. In accordance with the approved treasury management strategy, the council took out new Public Works Loan Board (PWLB) loans of £100m in June and £50m in July 2022, with an average maturity of 42 years and average interest rate of 3.25%.

84. At 31 March 2022 the council had short term loans from other local authorities of £175m. £100m has since been repaid as loans have come to maturity, as at the reporting period to July 2022. No further new short-term borrowings have been made.

85. The council maintains investment balances, representing income received in advance of expenditure plus balances and reserves held. Investments as at 31 July 2022 stood at £266m representing council resources not immediately required for current expenditure.

86. 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.

87. The rate of return for the council's treasury management assets for the 2022-23 financial year to June 2022 was 0.16% (-0.05% at 31 March 2022). This increase in yield, results from the recent rises in central bank base rates. In line with the treasury management strategy, the council benchmarks its fund managers to measure performance. Fund manager return was 0.12% in the first quarter, an over-performance of 0.19% above benchmark.

88. 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

89. This report monitors expenditure on council services, compared to the planned general fund budget agreed in February 2022, and HRA budget agreed in January 2022. 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

90. There are no climate change implications arising directly from this report, which provides an update on the revenue outturn for 2022-23.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and Resources Strategy 2022-23 – revenue budget: Council Assembly 23 February 2022	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/s105310/Report%20Policy%20and%20resources%20strategy%202022-23.pdf		
Housing Revenue Account: Final Rent-Setting and Budget report 2022-23: Cabinet 18 January 2022	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/s104188/HRA%20Final%20Budget%202022-23.pdf		

APPENDICES

No.	Title
Appendix A	Interdepartmental budget movements to be approved to Month 4

AUDIT TRAIL

Cabinet member	Councillor Stephanie Cryan, Finance, Democracy & Digital	
Lead officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report author	Tim Jones, Departmental Finance Manager	
Version	Final	
Dated	31 August 2022	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments included**
Director of Law and Governance	N/a	N/a
Strategic Director of Finance and Governance	N/a	N/a
Cabinet Member	Yes	Yes
Date final report sent to constitutional team		31 August 2022

Appendix A - Interdepartmental Budget Movements to Month 4 2022-23

Interdepartmental movements to be approved to month 4 2022-23

Department From	Amount £	Department to	Amount £	Description of the budget movement
Strategic Finance	(2,000,000)	Housing and Modernisation	2,000,000	Temporary Accommodation

Interdepartmental movements to be noted to month 4 2022-23

Department From	Amount £	Department to	Amount £	Description of the budget movement
Chief Executive's	(127,911)	Housing and Modernisation	127,911	Transfer of two workplace posts from Organisation Transformation to Facilities Management
Strategic Finance	(100,000)	Environment and Leisure	100,000	1 Shared Use Contribution
Chief Executive's	(128,191)	Environment and Leisure	128,191	Transfer Transport Planning team budget
Strategic Finance	(150,000)	Finance and Governance	150,000	Increase member services budget