Item No. 9	Classification: Open	Date: 17 January 2023	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy: revenue monitoring report, including treasury management month 8 2022-23	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Stephanie Cryan - Communities, Equalities and Finance	

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 remain 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 forecasts have proved to be far too low as inflation is currently over 10%. 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 are seeing continued budget pressures in adult and childrens' social care and in homelessness and temporary accommodation, which are likely to worsen as demand and inflationary pressures continue in the latter half 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.

RECOMMENDATIONS

That cabinet notes;

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

2. That the forecast has worsened since the Month 4 monitor was published in September 2022;

3. 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;

4. The key adverse variations and budget pressures;

   (i) The Dedicated Schools Grant (DSG) is forecasting an in-year pressure of £3m, 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;

   (v) Pay and contractual inflation across all services;

5. The ongoing inclement macro-economic environment, with inflation running at 10.7% in November and interest rates at their highest since 2008;

6. The final pay settlement was agreed in October, with an average impact across the organisation of 5.95% (the fixed sum award means the actual % varies by grade and spinal point);

7. That the un-budgeted element of the pay settlement has an adverse impact on the budget forecast of approximately £6.1m;

8. The housing revenue account forecast for 2022-23 (Table 2, paragraphs 68-77);

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

That cabinet approves;

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

BACKGROUND INFORMATION

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

12. 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.

13. 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.

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

KEY ISSUES FOR CONSIDERATION

General fund overall position

15. The forecast outturn projections in this monitoring report remain subject to economic uncertainty. Rising prices have 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. Rising interest rates feed through to increasing interest repayments on borrowing to fund the capital programme.

16. The forecast outturn position for the general fund is an adverse variance of £6.1m after the utilisation of reserves, as set out in Table 1. 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 8

General Fund	Original Budget	Budget Mov't	Revised Budget	Forecast Spend in Year	Variance before use of reserves	Forecast Reserves Mov't	Total use of resources	Variance after use of reserves
	£000	£000	£000	£000		£000	£000	£000
Children & Families	67,317	(2,300)	65,017	67,500	2,483	(124)	67,376	2,359
Adult Social Care	77,710	2,416	80,126	82,356	2,230	(2,491)	79,865	(261)
Commissioning & Central	5,017	-	5,017	5,502	485	(140)	5,362	345
Education	19,526	(1,238)	18,288	22,798	4,510	(1,226)	21,572	3,284
Public Health	(1)	-	(1)	(1,427)	(1,427)	1,427	-	1
Children & Adults (excl. DSG)	**169,569**	**(1,122)**	**168,447**	**176,729**	**8,281**	**(2,553)**	**174,175**	**5,728**
Environment & Leisure	91,554	2,931	94,485	98,565	4,157	(1,281)	97,284	2.799
Housing & Modernisation	63,090	(7,654)	55,436	59,053	3,617	(656)	58,397	2,961
Chief Executive's	1,791	1,189	2,980	5,353	2,373	(681)	4,672	1,692
Finance & Governance	21,319	222	21,542	22,566	1,025	(127)	22,440	898
Strategic Finance	(13,669)	4,433	(9,236)	(9,236)	-	72	(9,163)	72
Support Cost Reallocations	(42,341)	-	(42,341)	(42,341)	-	-	(42,341)	-
Contingency	4,000	-	4,000	4,000	-	-	4,000	-
Contribution from Reserves	(2,078)	-	(2,078)	(2,078)	-	-	(2,078)	-
Total General Fund	**293,236**	**-**	**293,236**	**312,612**	**19,376**	**(5,226)**	**307,386**	**14,150**
Of which, unbudgeted pressures;								
Pay Award: Social Care						(1,556)	(1,556)	(1,556)
Pay Award: Other Services						(4,509)	(4,509)	(4,509)
Backdated Overtime Payments						(936)	(936)	(936)
Energy price inflation						(1,000)	(1,000)	(1,000)
Outturn Forecast	**293,236**	**-**	**293,236**	**312,612**	**19,376**	**(13,227)**	**299,385**	**6,149**
DSG Overspend	-	-	-	2,991	2,991	-	2,991	2,991

17. The predominant theme this year to-date has been that of unprecedented inflation and this is reflected in the pressures being reported across almost all service areas in the table above. These adverse variances include the impact of un-budgeted pressures relating to pay and prices. In recognition of this, a number of lines have been added to account for these unbudgeted pressures including;

    - Pay Awards: to reflect the difference between the 2% budgeted and the circa 5.95% actual award.
    - Energy price inflation: to reflect the additional energy costs incurred by departments in delivering services from council properties
    - Backdated Overtime Payments: to reflect the one-off impact of an adjustment made in 2022-23 to the London Weighting element of historic overtime payments.

18. Officers will continue to mitigate the impact of these issues, however it is anticipated that reserve draw-downs will be required at year end to resolve these one-off pressures.

19. 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.

20. Strategic Directors have been asked to take steps to minimise the adverse variances being reported, however it is recognised that the impact of the prevailing macro-economic climate is hampering the management of costs.

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

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

CHILDREN'S AND ADULTS' SERVICES

23. Children's and Adults' services is currently forecasting an adverse variance of £5.7m after planned reserve transfers have been taken into account. This is also inclusive of a pressure of £1.6m regarding the recent pay awards for the permanent workforce. The services within the department has been especially effected by the cost of living crises, the aftermath of the pandemic as well as the higher than the norm inflationary increases. The key areas of concern affecting the general fund include children's social care due to continuing pressures in staffing, increased demand for care packages in Adult Social Care and complexity of need as people wait for NHS treatment, as well as the increased pressure on Special Education Needs (SEN) services and transport. The Dedicated Schools Grant (DSG) is currently forecasting an adverse variance of £3m mainly driven by the increased demand on the high needs block. The department has significant reserves built up over the last few financial years to withstand some of the challenges in a planned and purposeful way over the short to medium term, and Directors continue to practice strict financial management across all areas.

Adults Social Care

24. Adult social care division is currently forecasting an unfavourable variance of £2.2m before reserve transfers has been taken into account. The service has been working on mitigating this overspend through management actions and also proposing to draw down dedicated reserves of £2.5m. The service is actively seeking to manage demand despite the ongoing acuity of hospital discharges, the increasing costs especially in homecare, nursing and residential care. The increase in costs are driven by the increased complexity of clients as well as the higher than expected inflationary increases as result of rising inflation.

25. The service has experienced significant rises in expenditure especially in placements due to demand pressures and inflationary increases. Therefore introduced mitigating measures to keep the expenditure within

allocated budget. Actions included senior management direct oversight of multi-agency (with the NHS) resource panels, targeted reviews of care packages in addition to annual reviews all of which seek to right size care packages to current level of need, make use of technology and universal support. Also aiming to use our limited Occupational Therapy resource to review all double handed packages of care, with a view to promote use of equipment to support mobility and transfers.

26. The service has an established track record of good financial management in partnership with Finance, HR, Commissioning and Procurement colleagues and this will continue in order to ensure financial sustainability in the challenging years ahead. The current economic climate and the uncertainty around the key funding streams make it difficult for the service to plan ahead. The recent delay to the adult social care reforms including charging reforms and fair cost of care has made medium to long term financial planning difficult.

Children's Social Care

27. Children's Social Care is currently forecasting an adverse variance of £2.4m after planned reserve movements have been taken into account. This includes £0.7m pressure due to the recent pay awards which is expected to be offset from a corporate budget transfer. The main cost driver within the division is staffing. The service continues to be severely affected by the shortage in the supply of children's social workers. This has been an issue over a number of years at a national level and results in greater than desirable reliance on agency workers. In order to mitigate this, the service is concentrating on initiatives to recruitment and retain permanent social workers and to make that offer as attractive as possible, including manageable caseloads and working with all London LAs to better manage the agency market through the London Pledge. The division has recruited internationally and in addition to taking significant numbers of newly qualified social workers. In terms of placements, the service has experienced an overall reduction in the number of placements however placements costs continue to rise. The high number of unaccompanied asylum seeking young people in the borough is causing significant financial pressure.

Commissioning

28. The Commissioning division is currently forecasting an adverse variance of £0.35m. This forecast includes underlying staffing pressures, which is mainly due to a delay in restructuring. The division is actively 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

29. Education services is currently forecasting an adverse variance of £3.3m after planned reserve transfers have been taken into account. This includes an estimated £0.25m as result of pay awards. The home to

school transport remains the key driver for financial pressures on education general fund. The expenditure has increased significantly in comparison to last financial year which is due to the higher demand pressures as well as the high inflationary increases within the taxi and bus contracts. 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 SEND and work to better manage costs and demand for SEND provision.

Dedicated Schools Grant

30. The ring–fenced Dedicated Schools Grant (DSG) is currently forecast to result in an unfavourable variance of £3m which is mainly due to the higher than expected demand on the high needs block. This would bring the accumulated deficit on the balance sheet to £24.6m by the end of this financial year.

31. 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 this area. In particular, through commissioning work focussed on Independent Non-Maintained Special Schools, a focus on establishing economic 16-25 pathways and Alternative Provision. However the achievement of the balanced in year position will be affected by the fluctuations in demand for EHCP's as this is a highly demand led service area. It has been recognised that central government have not sufficiently funded this area of provision and that 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 service provision need to be reviewed. The service in conjunction with the High Needs sub-group of the School's Forum, HR, Finance and Commissioning developed detailed action plans which underpin recovery. There is oversight of this work through the Budget Recovery Board chaired by Strategic Directors.

32. In addition there is 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. Schools and the council are working together to right size the school estate through reviewing options around amalgamations, mergers and closures to ensure provision matches demand. A report outlining this plan was presented to Cabinet in December.

Public Health

33. The Public Health directorate is expected to forecast a favourable variance of £1m this will be transferred into the Public Health Reserve to

provide a reserve to deal with future financial uncertainties. The favourable variance is due to a number of staff carrying out pandemic related duties to enable the service to respond to Covid 19 in a timely manner. The current cost of living crisis, increasing inflation and economic climate will have an impact on the demand for public health services as they respond to the widening inequalities as a result of the pandemic.

ENVIRONMENT AND LEISURE

34. The department provides a variety of services to its residents, both statutory and non-statutory with many of the operational services being frontline and it also generates income from a broad spectrum of services it provides. The current economic climate has impacted both on the income streams and the cost base for the services delivered by the department. The department is projecting an adverse variance of £2.8m after the expected net transfer of reserves totalling £1.2m.

35. The projected outturn position takes into account the backdated costs of £1.1m 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.

36. The departmental pay costs has been budgeted at 2% pay inflation but the projection includes a cost pressure of £1.8m for the 2022/23 pay settlement agreed recently. These cost pressures are clearly beyond management control and hence these costs will be reviewed by the Strategic Director of Finance and Governance in the context of the overall financial position at year end with a view to covering these from council contingency or the financial risk reserve as appropriate. Therefore, if these costs are excluded, the outturn projection for the department is within budget with a favourable variance of approximately £100k.

37. Some of the main issues within the directorates are reflected below:

Environment

38. 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.

39. The schemes initially were introduced using temporary measures and have been through extensive public consultation 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.

40. The schemes continue to be a success across the borough, with a continued improvement in compliance of drivers which is resulting in a reduction in PCNs issued. This shift in behaviour change is encouraging given the 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 financial year.

41. Income collection from the ‘late night levy’ has recovered well after the operating restrictions in place during the Covid-19 pandemic. However, income from temporary street market licences has not recovered as anticipated resulting in a reduction in income for this service. 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.

42. The impact of high inflation has impacted the cost of materials and sub-contractor rates, exacerbated by higher energy costs have created a projected overspend in the traded services division. The business unit will continue to monitor the impact of inflation on service costs and find efficiencies and cost savings to mitigate the pressure.

Leisure

43. Work is ongoing to coordinate all activities involved in bringing leisure services in house from June 2023. This includes a focus on HR (TUPE and recruitment), procuring contracts, health and safety and facilities management. IT systems are also being developed to ensure full service integration into the council’s financial systems. A total mobilisation cost of £1.4m from these activities are projected for 2022/23 which is expected to be funded from the one off mobilisation budget of £2.4m, as previously agreed. The team are also developing a target operating model, which includes detailed budgeting and costing for the in-house leisure service.

44. Whilst visits to the library service continue to increase after the Covid lockdown periods, the libraries service is projecting an adverse variance on income due to reduced library overdue fees and room booking income. Work is underway to promote the meeting rooms on offer in the libraries, which have not yet returned to pre-covid booking levels.

45. There are also budget pressures within the directorate due to unbudgeted security costs at Kingswood House, loss of income at Canada Water theatre and utilities cost pressures.

Climate Change, Sustainability and Business Development

46. The Climate Change team and the Sustainability and Business Development teams have been through a restructure to ensure that they

are fit for the future and better able to support the department and council in delivering the council's priorities. Ahead of this there has been budget pressure on the sustainability and business development unit due to agency staff costs. The restructure will help us to reduce these costs and deliver the service more efficiently.

47. The Environment and Leisure department have embarked on an extensive change programme to ensure that the department can meet the challenges of financial pressures and the economic and social recovery that is needed following Covid. The cost of the service is expected to be met from earmarked reserves set aside for this purpose. This team is continuing to drive the work of Southwark Stands Together within the department and ensuring that services across E&L are efficient.

48. The Climate Change team continues to manage work across the council which is reducing emissions and helping the council to meet its climate change ambition of being a net zero borough by 2030. The revenue budget is largely staffing costs, and the team continues to operate within budget, with additional revenue to fund projects aligned to the council's climate action plan.

Communities

49. The council is continuing to support evacuees from Afghanistan and refugees arriving under the Homes for Ukraine scheme through the government's resettlement schemes. To date the council has assisted 221 Ukrainian families (over 460 individuals) and 127 Afghan refugee families. It is expected that the cost of these schemes will be contained within the total central government grant of approximately of £5m.

50. 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 that those refugees who came to the UK on family visas for which the council receives no funding from central government, 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.

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

HOUSING AND MODERNISATION

52. The outturn forecast for 2022-23 continues to show an unfavourable variance of £3.6m (gross), reflecting underlying budget pressures across the piece, particularly homelessness, post pandemic health and safety measures that remain in place until year-end and the higher than planned cost of meeting the recently agreed local government pay award.

However, the release of reserves will mitigate energy cost pressures in the Corporate Facilities Management and reduced grant income in Housing Solutions, which reduces the unfavourable variance forecast to £3.0m. The key budget headlines are set out below.

Resident Services - Temporary Accommodation (TA) and Housing Solutions

53. There remains a strong underlying demand for temporary accommodation, driven by the growing national homelessness crisis, excessive private sector rents and government restrictions on Local Housing Allowance (LHA) rates, which means welfare benefit rates remain significantly below the actual cost of private rented sector accommodation. Whilst the council reacted decisively in providing accommodation for the borough's rough sleepers and re-housing those in shared accommodation, the budget position remains a concern going forward given the cost of living crisis and continued economic uncertainty. There is also some pressure emerging on the supply-side to increase accommodation rates and pay incentives to landlords to retain properties. The combined outturn forecast including the Housing Solutions service is £1.9m over budget, which remains within the £2m contingency sum approved by Cabinet in February 2022.

Technology and Digital Services (TDS)

54. The combined cost of TDS delivered in partnership with the shared technology service (STS) shows a small adverse variance of £22k. Key strategies for the service include the on-going strategic development programmes to migrate from existing data centres to the cloud, the upgrade to Office 365, improving online access to services for residents and maintaining high levels of cyber security to protect the council from cyber threats and breaches of data protection rules. Shared technology services are delivered via an agreed Target Operating Model (TOM), which together with the work undertaken in house 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 have enabled the council to maintain a high level of service capability throughout, and work continues to support the post-pandemic hybrid office/ home working.

Asset Management - Corporate Facilities Management (CFM)

55. CFM manages the council's operational estate, ensuring buildings are compliant with health and safety regulations and remain fit for purpose for both staff and service users. This became more onerous during the pandemic and certain measures remain in place until the new financial year which has created an unavoidable budget pressure estimated at around £1m.

56. During this period, CFM have undertaken a long and complicated procurement for the provision of hard and soft FM services from 1 October 2022, which is now being mobilised. This has required external professional support which continues during the mobilisation period resulting in addition one-off costs that will fall-out in due course. Utility costs across the corporate estate have and remain subject to unprecedented price inflation, which is reflected in the outturn forecast and will continue for the foreseeable future. The service also manages a programme of life-cycle capital investment projects across the council's operational estate and other capital works programmes for departments for which it derives fee income. While activity has gradually returned to normal levels, fee income is below the budgeted level which further contributes to the exceptional budgetary shortfall of £1.9m for 2022-23.

Customer Services

57. Customer services is forecasting an overall unfavourable variance of £315k, which comprises a £250k pressure in relation to Lambeth Response team together with a £65k pressure within the Southwark Smart service where agency costs are forecast to exceed resources released by vacancies in permanent positions.

Central Services

58. Budgets held within this activity are of a department-wide nature including corporate recharges and costs that are not specifically attributable to a particular service, for example, financing and depreciation. The current forecast reflects anticipated lower activity and cost than expected giving rise to a favourable variance of £0.6m which partially mitigates overspends elsewhere.

CHIEF EXECUTIVES DEPARTMENT

59. The department is currently projecting an adverse variance of £1.692m at year end after the expected transfer of reserves of £681k relating to budget pressures within HR and Organisational Development which has been budgeted to be funded from earmarked reserves.

60. The departmental pay costs has been budgeted at 2% pay inflation but the forecast includes the impact of the additional costs of £664k relating to the recently agreed 2022/23 pay award on departmental budgets.
61. The other adverse variances relates mainly to unbudgeted legal costs on Planning Appeals and Public Enquiry costs within planning amounting to £871k and other budget pressures within property budgets.

62. The position will be monitored closely and any changes will be incorporated into the next revenue outturn report to cabinet.

FINANCE AND GOVERNANCE

63. The Finance and Governance department is projecting an adverse variance of £0.9m.

64. It remains increasingly difficult to recruit to professional roles in legal and financial services. Additionally, specialist services procured externally to support core teams have been subject to inflation.

65. During the first half 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. The service has provided significant HR and payroll support in H1, which has incurred significant contractual costs as well as the delivery of the review of the Council's Enterprise Resource Planning system.

66. The position will be monitored closely to see what mitigating actions can be taken before the year end.

Contingency

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

HOUSING REVENUE ACCOUNT (HRA)

Table 2: HRA Month 8

HRA M8 2022-23	**Full Year Budget £000**	**Outturn £000**	**Variance £000**
Asset Management	63,266	64,260	994
New Homes	385	1,035	650
Resident Services *Includes former Communities HRA	53,727	61,879	8,152
Directorate	1,885	1,948	63
Customer Services	7,003	8,445	1,442
Central Services	29,280	38,398	9,118
Debt Financing	30,105	25,216	-4,889
Depreciation	53,000	51,800	-1,200
Exchequer Services	9,108	9,041	-67
Tenant's Rents & Service Charges	-232,595	-232,635	-40
Homeowner Service Charges	-34,876	-35,449	-573
Revenue Contribution to Capital	19,712	16,000	-3,712
Appropriations to /(from) Reserves	0	-9,938	-9,938
Total HRA	**0**	**0**	**0**

68. 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. There remains a number of variables and uncertainties to contend with, not least the impact of inflation and energy costs that cannot be fully quantified with any certainty until year-end, therefore the forecast remains subject to change and viewed with caution. The position will be kept under review and any movements reported in the final outturn report following accounts closing in the New Year. The underlying position at month 8 is a negative variance of £20.4m (gross) which includes an exceptional £7.2m 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 reserve movements, 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.

69. 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 repairs service, where productivity remains target. Along with new and emerging demands in terms of building and fire safety, which must take priority over other works programmes. 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. The current forecast for asset management shows a budget variance of £1m, which may reduce though further capitalisation.

70. Subject to meeting strict eligibility criteria, works expenditure is routinely capitalised to mitigate revenue budget pressures. However, the corollary is that it adds further pressure on the asset management 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, has been to provide additional support to the capital programme through revenue budget contributions in the order of £19m per annum, in addition to the baseline depreciation charge, totalling circa £70m overall, solely to meet the needs of the existing housing stock. However, this has become increasingly more difficult to achieve in recent years and the budget cannot realistically be sustained at the existing level this year. The forecast is currently predicated on there being a reduction in the revenue contribution of £3.7m at this point, but that may have to increase should circumstances dictate.

71. Budget pressures similar to those experienced in prior years remain in the Resident Services division, which is forecast to be £8.2m over budget, despite approved growth of £1.6m in 2022-23. Temporary accommodation placements into estate voids is running at a higher rate and unit cost than originally predicated, estimated at £1m over budget. In addition, rampant inflationary pressure across voids works and internal repairs has driven the forecast overspend to £2m. The cost of communal electricity will also be significantly overspent at £1.7m, reflecting global energy price increases arising from the situation in Ukraine, and which are likely to get worse next year, impacting on resident's service charges going forward.

72. In addition the local government pay settlement for 2022-23 finally agreed in November has added a further £0.5m for H&M staff and £1.2m for staff in E&L who are engaged in the contracted service arrangements for the provision of estate cleaning, grounds maintenance and pest control services to Housing. These increases are higher than the original budget planning assumptions made in respect of the pay award for 2022-23. The overspend also includes a one-off payment of £0.6m for a long-standing overtime claim for cleaning staff covering the period 2016-17 to 2019-20 which has finally been agreed. And lastly, completion of the Great Estates programme costing £1.1m is expected, which will be covered through reserves carried forward specifically for this purpose.

73. 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, and are currently tracking broadly to budget in global terms. 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.

74. 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 at least £1m, reflecting inflationary cost pressures and energy costs.

75. Central Services comprises non-operational service budgets such as departmental and corporate overheads, arrears/bad debt provisions, revenue support for the capital programme and debt financing. 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. However, the recent and continuing acceleration in the council's debt level to finance the new homes programme has driven the revenue financing requirement substantially higher (indicative estimate £2.9m 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 necessary. This has been recognised in the HRA budget report for 2023-24 with a further £2.4m proposed for this purpose. This pressure will also be further exacerbated by rising interest rates making the cost of new 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.

76. 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. Whilst there could be no guarantee at that time that prices would stabilize, the situation has taken a dramatic turn with the conflict in Ukraine which has sent energy prices to unprecedented levels and shows no sign of abating. Current forecasts show the additional cost of energy for the district heating network is £7.2m more than the average cost over the last four years and assumes average consumption levels prevail over the coming winter period, but that remains a variable that cannot be assessed at this point. Whilst the earmarked reserve will be applied to mitigate some of the in-year cost pressure, the heating account will fall into deficit by year-end and need to be managed back into balance over a period of 2 to 3 years. For residents on the district heating network, charges are significantly below the level required to recover the additional costs and will have to increase in April. Further increases are likely to take account of further price increases for 2023-24, which are currently being finalised.

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 drawdown of £9.9m is forecast to meet the unprecedented cost pressures currently being experienced. 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 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. 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.

80. The balance on earmarked reserves at 1 April 2022 was £208.2m. This report identifies £13.2m of reserves that are likely to be drawn-down either during the year or at year-end, plus a remaining gap of £6.1m which will need to be bridged. Additionally, it is likely that the remainder of the Covid grants totalling £25.8m will also be drawn down as planned, largely to resolve income smoothing issues in the business rates and council tax collection funds.

Treasury management

81. As at 30 November 2022, outstanding debt held by the council was £886m (£896m as at 31 March 2022), an in-year decrease of £10m.

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 have reviewed the strategy in light of current macro-economic conditions and a report incorporating this was taken to Overview and Scrutiny in November, before the 2023-24 Strategy is agreed by Council Assembly in February 2023. 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, £50m in July and £10m in November 2022, with an average maturity of 43 years and average interest rate of 3.34%.

84. At 31 March 2022 the council had short term loans from other local authorities of £175m, of which £165m has since been repaid as loans have come to maturity. No new short-term borrowing was undertaken during the reporting period to November 2022.

85. The council maintains investment balances, representing income received in advance of expenditure plus balances and reserves held. Investments as at 30 Nov 2022 stood at £201m 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 November 2022 was 0.91% (-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 0.83% in the first quarter, an over-performance of 0.87% 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.

REASONS FOR URGENCY

91. Presenting this report to cabinet on 17 January 2023 gives the opportunity for debate on the forecast outturn for 2022-23 prior to presentation of the draft budget for 2023-24 which is also on this agenda.

REASONS FOR LATENESS

92. The report was scheduled to be brought to the February cabinet but has been brought forward to allow members to view the impact of inflationary and demand pressures on the 2022-23 budget and consider the implications for the 2023-24 draft budget.

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: 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: 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 8

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	13 January 2023	
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	NA	NA
Cabinet Member	Yes	Yes
Date final report sent to constitutional team		13 January 2023

Appendix A - Interdepartmental Budget Movements months 5 to 8 2022-23

Interdepartmental movements to be approved months 5 to 8 2022-23

Department From	Amount £	Department to	Amount £	Description of the budget movement
Strategic Finance	(250,000)	Finance and Governance	250,000	Increase SAP Payroll budget
Strategic Finance	(680,000)	Environment and Leisure	680,000	Leisure centre energy cost pressures
Housing and Modernisation	(10,754,183)	Strategic Finance	10,754,183	Transfer budget for freedom passes
Strategic Finance	(473,161)	Chief Executive's	473,161	Transfer of Corporate and Democratic Core budgets
Children and Adults	(1,194,064)	Housing and Modernisation	1,111,955	Transfer of budgets to match depreciation charges
Chief Executive's	(25,224)	Environment and Leisure	2,023,003	
Strategic Finance	(1,915,670)			
Strategic Finance	(800,000)	Chief Executive's	800,000	Corporate Capacity

Interdepartmental movements to be noted months 5 to 8 2022-23

Department From	Amount £	Department to	Amount £	Description of the budget movement
Strategic Finance	(150,000)	Finance and Governance	150,000	Contract sealing costs
Strategic Finance	(50,000)	Finance and Governance	50,000	Internal audit
Strategic Finance	(129,997)	Housing and Modernisation	129,997	Matching budgets with NNDR charges on corporate buildings
Strategic Finance	(10,000)	Finance and Governance	10,000	Transfer budgets for scrutiny review
Housing and Modernisation	(197,506)	Chief Executive's	197,506	Correct misalignment between budget and staffing structure
Housing and Modernisation	(71,855)	Children and Adults	71,855	SMART equipment
Strategic Finance	(85,551)	Finance and Governance	85,551	Increase in internal audit charges