Item No. 12.	Classification: Open	Date: 13 June 2023	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy: revenue monitoring report outturn 2022-23	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Stephanie Cryan, Communities, Democracy and Finance	

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

This report outlines the council's revenue outturn position for 2022-23. We have maintained a strong outturn position despite a very difficult economic environment and have delivered a balanced outturn for the financial year. We have also been able to keep our General Fund reserves stable which is important as we continue to navigate financial uncertainty, but the report also notes that the Housing Revenue Account reserves have been depleted due to increasing demands within our housing stock.

There continue to be significant challenges within the revenue budget including:

- Demand pressure on the Dedicated Schools Grant budget, although there is some good news in having successfully negotiated a 'Safety Valve Agreement' with the Department of Education to help reduce historic debt.
- Continued pressure on the Temporary Accommodation budget, mainly driven by the impact of the cost of living crisis and the local housing allowance not covering rent costs across the borough. We are also now seeing supply pressures with less properties becoming available on the rental market.
- The impact of pay and price inflation across the council, however, has been ameliorated through prudent use of contingency and reserves.
- The Housing Revenue Account is under very significant pressure due to the rent cap and the increase in the number of repairs being reported. In addition, the Capital Programme is under pressure due to the cost of inflation and rising interest rates.

Looking ahead to the current financial year, the General Fund remains resilient despite the challenges and is in a strong position to ride the current economic climate but as ever we need the Government to give long term funding certainty to enable us to better plan our resources over the longer term.

RECOMMENDATIONS

1. That the cabinet notes the balanced general fund outturn position for 2022-23 after movements in reserves and application of planned contingency funds;

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

   (i) The adverse variance of £2m on the DSG budget, bringing the accumulated deficit to £14.5m (net of Safety Valve funding received from Government);

   (ii) Pay, energy and contractual inflation across all departments (mitigated through use of contingency and reserves);

   (iii) The continuing budget pressures on Temporary Accommodation;

3. That the cabinet notes the utilisation of £4m contingency to offset adverse variances;

4. That cabinet notes the housing revenue account outturn for 2022-23 (Table 2, paragraphs 79-91) which is balanced following a £6.7m draw-down from reserves;

5. That cabinet notes the movements and balances of General Fund earmarked reserves as set out in paragraphs 97-106 and Appendix B;

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

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

BACKGROUND INFORMATION

8. This report sets out the outturn position for the general fund, housing revenue account and dedicated schools grant for the 2022-23 financial year.

9. The council agreed a balanced general fund budget of £293.2m on 23 February 2022 including a 2.99% council tax increase. 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.

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

KEY ISSUES FOR CONSIDERATION

General fund overall position

11. The final outturn position for the general fund is balanced after movements in reserves and use of contingency, as set out in Table 1 below. This table shows the departmental budget outturn variances together with the utilisation of reserves and contingencies to come to the balanced outturn as at the end of 2022-23.

Table 1: 2022-23 General Fund outturn position

General Fund	Original Budget*	Budget Movement	Revised Budget	Net Spend in Year	Reserve Movement	Total use of Resources	Variance after use of reserves
	£000	£000	£000	£000	£000	£000	£000
Children & Families	67,317	(1,967)	65,350	64,714	1,742	66,456	1,106
Adult Social Care	77,709	2,416	80,125	77,808	(171)	77,637	(2,487)
Commissioning & Central	5,017	(333)	4,684	4,920	(41)	4,879	195
Education	19,526	(1,100)	18,426	21,772	(2,217)	19,555	1,129
Public Health	0	-	0	(1,276)	1,276	(0)	(0)
Children & Adults total (excl. DSG)	**169,569**	**(984)**	**168,585**	**167,939**	**589**	**168,527**	**(58)**
Dedicated Schools Grant (DSG) In-Year	-	-	-	2,037	-	2,037	2,037
DSG Safety Valve Grant Receipt				(9,221)		(9,221)	(9,221)
DSG Total	**-**	**-**	**-**	**(7,184)**	**-**	**(7,184)**	**(7,184)**
Environment, Neighbourhoods and Growth	86,027	2,973	88,999	90,508	976	91,484	2,484
Housing	19,330	1,412	20,742	21,030	240	21,270	528
Finance	35,593	2,038	37,631	41,292	(1,555)	39,737	2,106
Governance and Assurance	22,036	1,542	23,578	25,589	(780)	24,809	1,231
Strategy and Communities	4,013	1,706	5,719	4,889	903	5,792	74
Strategic Finance	(2,914)	(8,604)	(11,518)	(31,191)	15,230	(15,961)	(4,442)
Support Cost Reallocations	(42,341)	(82)	(42,423)	(42,423)	-	(42,423)	-
Contribution from Reserves	(2,078)	-	(2,078)	-	-	-	2,078
General Contingency	4,000	-	4,000	-	-	-	(4,000)
DSG balance to adjustment account	-	-	-	7,184		7,184	7,184
Outturn	**293,236**	**-**	**293,236**	**277,633**	**15,603**	**293,236**	**-**

**A re-organisation of departments took place during 2022-23, original budgets have been apportioned on the basis of the new structure*

12. Overall the financial performance of the General Fund has been strong in 2022-23, despite significant challenges in the wider macro-economic environment. Inflation, rising interest rates and increased energy costs have had an impact across departments, but have been successfully mitigated through effective management activity, use of specific reserves earmarked for that purpose, and by use of contingency.

13. Despite these challenges, the council has continued to invest in initiatives to support those most impacted in the borough, including bolstering and expanding its Cost of Living response and supporting refugees fleeing conflict.

14. Elsewhere, underlying demand-led pressures continue in several areas such as High Needs, Temporary accommodation and welfare support. These factors are described in more detail in the narrative below.

15. The appendices attached to this report provide more detail on the in year

budget movements and the closing reserve balances (Appendices A & B).

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

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

DEPARTMENTAL NARRATIVES

Children's and Adults' Services

18. This financial year has been very challenging for the Children's and Adults Services due to the cost of living crisis, higher than normal inflationary increases as well as the general economic uncertainty. The department has worked very hard to ensure value for money is achieved and working in partnership with finance, HR and procurement achieved an overall balanced positon for the 2022-23 financial year. The key areas of concern affecting the general fund include 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) closed the year with an adverse variance of £2.1m mainly driven by the increased demand on the high needs block. The department has 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

19. The adult social care division closed the year with a favourable variance, inclusive of earmarked reserve drawdowns of £2.5m. The service has experienced significant increases in expenditure especially in placements due to demand pressures and inflationary pressures. The service is actively seeking to manage demand despite the ongoing acuity of hospital discharges, the resultant increasing costs in homecare, nursing and residential care. The increase in costs are driven by the increased complexity of client need, as well as the higher than expected inflationary increases as result of rising inflation.

20. 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 announcement to delay 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

21. Children's Social Care closed the year with an adverse variance of £1.1m. The service has experienced a number of years of improved outturn which can be attributed to purposeful early help work to better support children and families rather than the more costly statutory social care system, as well as some reduced cost pressure from staffing. While the shortage in the supply of children's social workers is still a major financial pressure within the department, new recruitment and retention initiatives have started to improve the position.

22. The improved position in comparison to previous years is also the result of a well managed reduction in demand for statutory social care services, primarily lower numbers of children in care, this is somewhat offset by increased numbers of care leavers and higher cost placements. There are still concerns that the cost of living crises, higher than normal inflationary increases of placement costs, and rising numbers of unaccompanied asylum seeking children in the borough, is likely to present financial pressure especially in the medium and longer term. 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.

Commissioning

The Commissioning division has ended the year with an adverse variance. This forecast includes underlying staffing pressures, which is mainly due to delay in restructuring and joint commissioning. The directorate is working on reducing the use of agency staff and to establish a permanent staffing structure.

Education

23. Education services closed the year with an adverse variance of £1.1m this is inclusive of a dedicated reserve drawdown of £1.3m. Home to school transport remains the key driver of financial pressures in the 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 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 strategic work to better manage costs and demand for SEND provision.

Dedicated School Grant

24. The ring-fenced Dedicated Schools Grant (DSG) achieved an unfavourable outturn of £2m which is mainly due to increased demand pressures within the high needs service. 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 within the High Needs Block. In particular, through commissioning work focussed on Independent Non-Maintained Special Schools, a focus on establishing economic 16-25 pathways and Alternative Provision. However the achievement of the balanced in year position will be affected by the fluctuations in demand for EHCP's as this is a highly demand led service area.

25. In order to manage the accumulated DSG deficit on the council's balance sheet the service entered the Department of Education's (DfE) Safety Valve programme. The DfE programme was established by Government in recognition of their historic underfunding of need. Key to this programme is the agreement to ensure an in year balanced position within the timeframes agreed. In exchange of this achievement the DfE will provide additional funding to eliminate the accumulated deficit on the council's balance sheet. The first instalment (£9.221m) from the DfE was received in 2022-23. Therefore the accumulated deficit currently on the balance sheet is £14.5m. The achievement of key milestones 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 by Strategic Directors, and political oversight by the Deputy Leader.

26. A number of maintained schools are experiencing financial difficulties. This is mainly due to the continued falling roles that has been experienced across all London boroughs. A strategy called Keeping Education Strong was developed to right size the school estate and this was approved by Cabinet in December. This strategy will result in amalgamations, mergers and school closures to ensure provision better matches need, and a sustainable sector in borough.

Public Health

27. The Public Health ring fenced grant has achieved a favourable outturn of £1.9m for 2022-23. This was 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. The current cost of living crisis, increasing inflation and economic climate will have an impact on demand for public health services as they respond to the risk of widening inequalities.

ENVIRONMENT, NEIGHBOURHOODS AND GROWTH

28. The final outturn for the Environment, Neighbourhoods and Growth Department is an adverse variance of £2.48m after a net transfer to reserves of £979k.

29. The departmental position excluding the following exceptional items, would have been a favourable variance of £316k:

    - The local government pay settlement for 2022-23 was significantly higher than the 2% figure anticipated in the budget. This added an additional sum of £1.8m to our costs (total impact of £3.45m of which £1.65m was recharged to the HRA for staff in contracted service arrangements for the provision of estate cleaning, grounds maintenance and pest control services).
    - Backdated staff payments of £1.1m (total impact of £1.64m of which £540k recharged to the HRA) for changes to overtime pay to include London weighting for those employees on Southwark Hay grades 1 - 8.
    - Early/ill health retirement / Redundancy costs of £402k.
    - The department also had a £496k pressure from increased costs of electricity and gas. This particularly affected the Street Lighting and Libraries Operations budgets. This pressure was funded from the Fuel Inflation reserve.

30. Although the department ended the year with an overspend, it achieved its planned savings of £5.53m (£835k from efficiencies and improved use of resources and £4.69m from income generation). The plan for 2023-24 is to make further savings of £2.48m (£770k from efficiencies and improved use of resources as well as £1.71m from income generation).

31. The department has income generation as one of its overriding objectives, in a bid to maintain its core capacity to provide services. The challenge for the department and the council as a whole is having to work harder to ensure it stays financially resilient in its quest to do more for our residents with less and less. The total value of departmental income increased by £12.2m (11.5%) to £127m in 2022-23.

32. The department continuously seeks improvements in all its service areas and has robust monitoring systems in place to ensure its service delivery is at the highest possible standards given the constraints. Some of the main issues within the directorates are reflected below:

Environment

33. 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.

34. 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.

35. 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.

36. 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 to recover from the pandemic, recognising the important contribution that markets make to the local economy.

37. The impact of high inflation has impacted the cost of materials and sub-contractor rates, exacerbated by higher energy costs, creating an overspend in the traded services division. This was mitigated by an increase in income from pest control services to commercial premises. The pressure from higher energy costs on Street Lighting budget was funded from the Fuel Inflation on Council Estates reserve.

Leisure

38. 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 £1.18m incurred for these activities in 2022/23 was funded from the one off mobilisation budget of £2.4m.

39. The team has also developed a target operating model, which includes a detailed budget for the in-house leisure service.

40. Whilst visits to the library service continue to increase after the Covid lockdown periods, usage has not yet returned to pre-covid levels. As a result, the libraries service had 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.

41. There were 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

42. 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.

43. The department has embarked on an extensive change programme to ensure that it can meet the challenges of financial pressures and the economic and social recovery that is needed following the pandemic. This team is continuing to drive the work of Southwark Stands Together within the department and ensuring that services across EN&G are effective and efficient.

44. 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

45. The council has supported refugees arriving under the Homes for Ukraine scheme through the government's resettlement schemes. To date the council has assisted 304 Ukrainian households (504 guests). The council currently has 235 Ukrainian households (391 guests) with just under 20 households in temporary accommodation. The council is due to start work with BEAM to secure private market housing move-on, starting with those families currently in TA or whose hosts have indicated they will not be able to continue hosting imminently.

46. The council has to date, also supported 127 Afghan refugee families. The council currently has only 5 Afghan households resettling in the community as most of the families were moved outside London by the Home Office. The costs of these schemes will be contained within the total central government grant of approximately of £5m.

47. Following on from the extensive review on service delivery in 2017/18, the service undertook a systematic review and closure (where applicable) of long-standing cases and generated cost savings. The council introduced more rigorous assessment processes for new cases which resulted in a noticeable reduction in new acceptances and seemingly stabilised numbers presenting and costs. The advent of the pandemic which was, unfortunately, closely followed by the cost of living crisis has been challenging for individuals and families subject to no recourse to public funds. The service, being demand driven, has in the last 3 years seen a 56% increase in client payments and a 15% increase in accommodation costs.

48. The directorate's horizon scanning has identified a potential forthcoming pressure arising from the new Streamlined Asylum Processing system. This could potentially result in a situation in which those accommodated in emergency accommodation locally will approach the local authority for support once their claims are granted. The local authority will need to respond appropriately to this demand without the aid of adequate funding from central government.

Planning & Growth

49. The directorate had an adverse variance of £778k before reserves adjustment in 2022-23. This was mainly due to £171k for the payment of the 2022/23 unbudgeted pay award, £48k of unbudgeted NNDR costs in Property and £559k of costs (mainly legal) associated with the New City Court appeal - this was funded from Corporate Reserves.

50. Sustainable Growth (SG) continued to deliver the council's programme of school investment. Most notably Rotherhithe Primary school was completed. In addition the team delivered a maintenance programme for all 22 schools. SG also relaunched a plan to improve Peckham Square which will include a new home for Peckham Platform at 91-93 Peckham High Street. The team also oversaw the implementation of the council's £5.4m Local CIL programme and a number of other capital projects identified in the council's delivery plan such as Peckham Station phase 1 and Canada Water leisure centre. The team continues to provide specialist property advice to support the delivery of the council's housing programme at Aylesbury, Tustin and Ledbury.

Income

51. Underlying income in Property is on target, with scope to expand. The budget outturn is adversely impacted by vacant property holding costs, particularly NNDR. Strategies to mitigate these costs based around either investment in the assets concerned or disposal are being progressed.

52. The planning service continued to deliver the Council's development plan policies, ensuring good development management and the orderly

and efficient use of land. Planning income remained roughly on budget despite difficult market conditions and coming out of a pandemic. This was helped by an increase in statutory fees but also a more proactive approach to Planning Performance Agreements and additional charging for services including management of conditions.

53. Rent arrears in the commercial property portfolio increased markedly during the coronavirus pandemic. They have continued to do so throughout the cost of living crisis. The successful management of debt across the largest tenancies in the portfolio has ensured a degree of resilience in overall rental income collected. However, the residue of monies owed has come to be concentrated in the council's traditional portfolio of small shops and other business premises. The majority of these generate income for the HRA. Proposals for the management and reduction of this debt are currently being considered.

HOUSING (General Fund)

Overview

54. The implementation of the strategic management restructure during the latter part of 2022-23 has seen responsibility for customer services (CS), corporate facilities management (CFM) and technology and digital services (TDS) transfer from Housing to other directorates within the council.

55. The outturn for the services that remain in Housing show a net adverse variance of £528k. This predominantly comprises unavoidable budget pressure on homelessness which Cabinet has been fully appraised of during the year. Southwark has also continued to play a vital role in supporting residents and businesses through the cost of living crisis and the residual impact of the pandemic, to ensure that the most vulnerable in our community and local economy remain protected. Similar to the previous year, this has resulted in significant additional cost, albeit this has been partially mitigated through favourable variances elsewhere within the directorate, which is reflected in the lower than expected outturn for the year.

Asset Management - Private Sector Building Safety

56. The private sector building safety team was established during 2021 to undertake inspections and enforcement on high rise residential blocks, with specific focus on ACM cladding, in response to government directive under the Housing Act (2004). More recently, the scope of the programme has increased to include non-ACM buildings and Housing Association buildings, and DLUCH awarded Southwark £146k in 2022-23 and £366k in 2023-24 to deliver this expanded programme. The service has underspent in 2022-23 by £93k due to difficulties in the recruitment of appropriately qualified staff to undertake this work. Given these difficulties, the council must now accelerate the programme during

2023-24, and the grant funding provided will be carried forward into the new financial year to enable this to be delivered as planned.

Resident Services - Temporary Accommodation/ Housing Solutions

57. There is a strong underlying demand pressure in Southwark for temporary accommodation, which was exacerbated by the pandemic and further stressed by the cost of living crisis. More worrying is the emerging pressure on the supply side as providers are exiting the private rental market due to rising interest rates and wider macro-economic factors that are impacting their returns. Government measures to address the national homelessness crisis remain inadequate, with no effective controls over the growth in private sector rents and the sustained restrictions on Local Housing Allowance (LHA) rates, which means welfare benefits do not cover private sector rental rates and increases the pressure on local authority provision.

58. Overall, the outturn position for TA shows an adverse variance of £577k, plus a further £424k for the housing solutions service (totalling £1,001m for 2022-23). This represents a considerable improvement over earlier forecasts and exceeds the performance measure set by Cabinet to manage service expenditure within the contingency sum of £2m agreed as part of budget setting for 2022-23. This has been aided by the work of the Budget Recovery Board (BRB), which has and continues to undertake a forensic examination of all aspects of the service to enhance efficiency and identify cost savings to mitigate the enormous financial burden that TA places on the council.

59. Caseload continues to experience fluctuations, but by comparison with previous years it has remained relatively stable and will hopefully continue to do so during 2023-24. However, the true position is masked by a marked reduction in the value of incentive payments made to providers for private sector leased accommodation. This is substantially below initial expectations, as landlords withdraw from the rental market, as referred to above. Whilst this is a fortuitous one-off cost saving, it only serves to exacerbate the supply side pressure to find suitable accommodation for those in housing need and which is likely to be even more pronounced going forward. Additionally, the council has received a late top-up grant allocation which has been applied for DHP and arrears reduction and has assisted in further mitigating the financial year-end position.

60. Moving into 2023-24, the Budget Recovery Board (BRB) will continue to review all aspects of temporary accommodation provision, particularly the council’s policy framework and procurement strategies. The budget position remains a major concern and one that is likely to deteriorate given the continued economic uncertainty and cost of living crisis, supply side difficulties and global issues beyond the council’s control. Whilst the council remains fully cognisant of its statutory homeless duties, it is

incumbent on it to fulfil these obligations in the most cost effective and sustainable way possible.

Central Services

61. Budgets held within this activity are of a department-wide nature including corporate support services recharges and costs that are not specifically attributable to a particular service. These comprise financing costs, insurance, depreciation and contingencies for professional fees and services, which have not been fully utilised in year and have contributed (£361k) to the better than expected overall outturn position for 2022-23.

ASSISTANT CHIEF EXECUTIVE, STRATEGY AND COMMUNITIES

62. The Assistant Chief Executive – Strategy & Communities Department is reporting an adverse variance of £74k for the year-end after reserve adjustment of £903k.

63. The main reason for the adverse variance is due to the higher than budgeted salary costs associated with the 2022/23 pay award. Adjusting for this, the underlying favourable variance would be approximately £13k.

ASSISTANT CHIEF EXECUTIVE, GOVERNANCE AND ASSURANCE

Legal Services

64. Legal services are reporting an adverse variance of £277k. As with other services across the council, inflationary pressures on pay were a factor. Difficulties in legal services (and across the organisation) in recruiting and retaining professional and specialist staff also had an impact on legal budgets in 2022-23.

Human Resources & Organisational Development

65. HR & OD are showing a combined gross overspend of £468k before the application of reserves. The majority of the overspend is due to employee costs (£525k) incurred while the service transitions to a new operating model, predicated against the reserve set aside for such costs. Other pressures of note include recruitment advertising expenditure, offset by underspends relating to recharging activity. The position has been further mitigated by reserve drawdowns for SST and Apprentices costs. The net position reflects an agreed £75k overspend related to the unbudgeted pay award.

Corporate Facilities Management (CFM)

66. CFM is responsible for managing the council's operational estate, ensuring that buildings are compliant with health and safety regulations

and are fit for purpose for both staff and service users alike. This includes legacy services introduced at the height of the pandemic that are still required to ensure a safe working environment, the cost of which was circa £0.9m during 2022-23, but which should fall out during 2023. CFM also manage and provide professional and technical support for the delivery of the planned works programme for the council's operational estate, from which it derives fee income to support its budget. In 2022-23, activity recovered more quickly than had been expected and the service was able to surpass its income target and offset some of the unavoidable overspending elsewhere within the service.

67. Another key milestone achieved during the year has been the successful transition to a new external facilities management (FM) provider, but the procurement process has proved to be significantly more difficult and resource intensive than expected. As part of this process, it was a requirement to in-source part of the cleaning service at Tooley Street and Queens Road, which had formally been integral to the externally provided FM contract. Whilst this has been achieved at additional cost, it remains an area of further development.

68. Other significant variances include a pressure on utilities budgets of £328k mitigated corporately through a contribution from reserves. This together with smaller variances across supplies and services, transport and other property budgets including income contribute to the overall budget pressure of £879k.

FINANCE

69. The Finance department is reporting an adverse variance of £2.1m, attributable to adverse variances in Technology and Digital Services (£288k), Exchequer and Customer Services (£1.908m) offset by a small favourable variance in Professional Finance Services of £90k.

Technology and Digital Services (TDS)

70. The service has continued to deliver key operational change strategies. These include the on-going strategic development programmes to migrate from existing data centres to the cloud; the upgrade to Office 365 including the staff intranet; improving online access to services for residents; maintaining high levels of cyber security to protect the council from cyber threats and breaches of data protection rules; building the council's capability to enable service areas to become more intelligent led and make better use of data and supporting the organisation as a business partner to deliver the Southwark 2030 vision.

71. Shared technology services 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 model. The service provides technology and digital support and business partnering advice and guidance to all council departments to enable effective service delivery and business efficiencies.

72. Overall, the cost of TDS was £288k above budget. While the service seeks to contain expenditure within budget as was the case last year with a favourable variance of (£231k), a variance can be expected due to the nature and pace of change within the service. A contributory factor in 2022-23 will have been the local government pay award settlement, which when confirmed as a fixed lump sum cost per employee generally exceeded budget expectations.

Exchequer and Customer Services

73. Registrars and Citizenship, Coroners and Mortuary, Freedom Passes and Blue Badges, SMART and the general fund element of Customer Experience all fall under the heading of Customer Services, which shows an adverse budget pressure of £973k.

74. Additional cost pressures within the contact centre (which is accounted for in the HRA), means the general fund share of costs (circa 30%) have increased by £331k, which predominately relates to the local government pay settlement, which exceeded budget estimates, particularly at the lower pay scales where fixed sums were awarded. There is also a £506k pressure within the SMART service, partly due to the pay award, additional staffing requirements to increase capacity and maintain 24 hour service coverage and the back-dated payment of out of hours allowances. Extra funding for 2023-24 has been agreed with Lambeth which should regularise the position, but there remains inherent budget pressure within the wider service which should be addressed through restructuring during the year. There are also a number of other smaller variances across the other service areas totalling £136k which contribute to the overall outturn position.

75. There continues to be a significant additional administrative burden on the Exchequer team with respect to the increasing number of welfare claimants and impact on council tax support (LCTS) and the greatly expanded Cost of Living Fund. An adverse variance of £935k is reported for 2022-23.

Other Services

76. Elsewhere within the department a small favourable variance was reported in Professional Finance Services, predominantly due to vacancies.

STRATEGIC FINANCE

77. Strategic Finance is reporting a favourable variance of £4.4m. Strategic Finance includes a number of budgets that are not allocated directly to departments and which are managed centrally. These include treasury management, insurance, corporate provisions, levies and a number of technical accounting budgets, such as the reversal of depreciation, that do not impact on the net budget requirement or level of council tax that the council sets each year.

CONTINGENCY

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

HOUSING REVENUE ACCOUNT (HRA) OUTTURN 2022-23

Table 2: HRA Outturn 2022-23

Housing Revenue Account 2022-23	Full Year Budget £000	Outturn £000	Variance £000
Asset Management	63,266	69,183	5,917
New Homes	385	910	525
Resident Services	55,198	67,500	12,302
Directorate	1,885	1,985	100
Customer Services	4,977	5,921	944
Central Services	29,835	20,944	-8,891
Debt Financing	30,105	26,275	-3,830
Depreciation	53,000	51,708	-1,292
Exchequer Services	9,108	8,553	-555
Tenant's Rents & Service Charges	-232,595	-233,820	-1,225
Homeowner Service Charges	-34,876	-41,820	-6,944
Revenue Contribution to Capital	19,712	15,989	-3,723
Appropriations to /(from) Reserves	0	-6,672	-6,672
Total HRA	**0**	**0**	**0**

79. Budget monitoring reports to Cabinet during the year have made clear reference to the financial uncertainty that inflationary cost pressures, particularly energy, and emerging commitments in relation to building safety requirements for the council's housing stock create. The underlying financial position for 2022-23 is a negative variance of £19.8m (gross) which is substantially due to the exceptional impact of energy costs, primarily gas and electricity in the district heating account and electricity for other services such as estate lighting, etc. which are borne by residents either through their weekly heating charge or service charge for homeowners. However, the position is ameliorated through better than expected rental income performance, one-off service

underspends elsewhere across the HRA, and a combination of financing measures, including a necessary reduction in the level of revenue contribution to the capital programme (as reported previously) and the use of £6.7m of reserves to ensure a balanced position at year-end.

80. Noting the need to draw down on reserves to balance the outturn, there remains limited scope within the HRA to absorb ever increasing demands, and the new burdens arising from government directives around building safety are further exacerbating this. Not only does there need to be significant re-prioritisation of existing resources to those areas of highest need, but also a focus on identifying additional resources to continue to fund the capital programme. New policy and governance around the acquisition and disposal of both housing and commercial assets will be brought forward in 2023-24 which should improve the flow and allocation of these resources.

81. The repair and maintenance of the housing stock consumes by far the largest proportion of operating resources. Despite significant budget growth over recent years, expenditure continues to exceed the approved budget, resulting in a negative variance of £5.9m in year after capitalisation. There is widespread overspending across the division as the volume of work increases and costs rise far in excess of budget expectations. Major areas of concern are disrepair, which shows a variance of £2.5m due to caseload volumes and works spend, along with legal and associated settlement costs. In addition, there is a £2.8m budget variance arising on communal repairs, roofing and rainwater and void works, which is partly impacted by the run-out of Covid related backlog works.

82. Southwark Repairs continue to show a deficit trading position of £2.5m over their £3.6m base budget. This is partly down to construction industry inflation referred to elsewhere, and secondly, a substantial increase in the scale and value of works sub-contracted, that cannot be accommodated internally. There has also been a surge in damp and mould caseload over the last few months which has impacted other day to day work programmes and worsened the outturn position. Implementation of the strategic business improvement plan remains key to improving operational efficiency and productivity, controlling costs and achieving the higher service standards and value for money that residents expect and deserve.

83. Subject to meeting strict eligibility criteria, works expenditure is routinely capitalised, which helps to mitigate revenue budget pressures. However, the corollary is that it adds further pressure on the HIP 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 revenue resources to support the capital programme in addition to the baseline depreciation charge, totalling circa £70m per annum, solely to meet the needs of the existing housing stock. However, this has become

increasingly more difficult to sustain in recent years and it is again necessary to reduce the contribution for 2022-23 by £3.7m.

84. Budget pressures similar to those experienced in prior years remain prevalent in the Resident Services division, which ended the year with an_adverse variance of £12.3m, despite approved growth of £1.6m in 2022-23. Whilst overspending is widespread across the division, the primary areas include the number of tenants requiring rehousing in temporary accommodation, which has been significantly higher than originally predicted costing £1m more than budget. In addition, inflationary pressures on voids refurbishment and internal works programmes have driven the repairs overspend up to £1.7m. The cost of communal electricity is also significantly overspent by £2m, reflecting global energy price volatility arising from the situation in Ukraine.

85. In addition, the 2022-23 pay settlement finally agreed in November has added a further £0.5m for Housing staff and £1.3m for staff in E,N&G employed in the contracted service arrangements for estate cleaning, grounds maintenance and pest control services to the HRA. These increases were much higher than the original budget planning assumptions made in this respect across the council, but are a real cost to HRA whereas general fund costs are covered corporately. There is also £0.6m in settlement of a long-standing overtime claim for cleaning staff covering the period 2016-17 to 2019-20, which has finally been resolved. Council tax liabilities on void properties awaiting refurbishment and on new properties built but not yet let amount to £0.6m. Costs of insurance and service charges have also risen sharply on private sector blocks (e.g. Churchyard Row) acquired over recent years in response to the need to rehouse tenants from Ledbury and other estates deemed to be unsafe at a further cost of £0.6m. Finally, the long awaited completion of the Great Estates programme costing £1.1m is included here, which will be covered through the release of reserves set aside for this purpose.

86. The viability of the HRA is entirely dependent on rental, service charges and other income streams for the continued provision of good quality landlord services. Rent debit, void loss and collection are key financial performance indicators and are monitored closely and have shown gradual but sustained improvement over the year, and the outturn position is better than previously forecast. However, this remains an area of particular risk given the critical nature of the rental stream. The pandemic had an adverse effect on arrears which necessitated higher bad debt provisions being made to mitigate potential losses, and whilst this pressure has largely subsided, it has been replaced with the cost of living crisis which will inevitably put pressure on residents' ability to pay their rent. Whilst rents and tenant service charges remain eligible for welfare benefits, the council has put in place a raft of support measures, including Discretionary Housing Payments (DHP), to help residents through the current crisis with their rent payments. Cabinet are advised that the HRA maintains a prudent level of provision to meet collection

losses/write-offs and has reviewed those risks in light of the current situation.

87. 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’ (RTB). The revenue charge covers general day to day operating and repairing responsibilities, whereas the capital charge covers major works. These represent actual costs incurred by the council and are fully recoverable under the terms of the lease in order to prevent cross-subsidy from tenants. The nature and profile of programme spend, particularly major works, means expenditure is not linear, leading to potential volatility in both in-year billing amounts, compounded by the effect of prior-year account actualisations and the impact of RTB sales in year. The position for 2022-23 has been particularly eventful, given the unprecedented rise in energy costs, which exceeded all budgetary expectations and is reflected in the accrued level of district heating income for the year. Combined with a much greater volume of communal area works (including Covid programme catch-up), billing is significantly ahead of budget by around £6.9m for 2022-23.

88. 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 successfully navigate inherent budget pressures and exceptional events such as the water refunds judgement, largescale rehousing projects, e.g. Ledbury, the four-year enforced rent reduction policy and latterly rent capping for 2023-24.

89. However, the continued growth in the council’s debt to finance the new homes programme has increased the revenue financing requirement by £3.1m more than last year. These costs will continue to accelerate rapidly over the short-term (notwithstanding the additional £2.4m budget agreed for 2023-24). With interest rates currently at over 5%, some 3% higher than two years ago, further budget growth will be required to meet the long-term commitment (up to 50 years) of servicing the council’s housing debt, which will consume a much 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.

90. 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 took a dramatic and unexpected turn for the worse giving rise to additional costs of £6.7m to the heating account, which has been met through the release of earmarked reserves held for this purpose and an accrual for homeowner income relating to this year but billed in arrears. Given the circumstances, Cabinet agreed to increase heating charges for tenants by 70% from April 2023, which along with the estimated homeowner recovery is expected to maintain the equilibrium of the heating account going forward. However, there are a number of variables and unknowns in play here which make it impossible to provide any certainty around this, but assuming energy markets continue to stabilise and government interventions in terms of price caps for both individuals and commercial users continue, then it is hoped no further price increases in heating charges will be necessary in 2023-24 as previously feared

91. 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), in the same manner as the council's General Fund. During 2022-23 it has been necessary to drawdown £6.7m of reserves to balance the HRA operating account for the reasons outlined above, but particularly the district heating account (£4.1m), which has been exposed to unprecedented price volatility and now carries forward a minor deficit for the first time since it was first established in 1985. Overall, HRA reserves are at their lowest ever point and in the context of the size of the council's HRA and HIP with combined annual turnover of circa £600m+, reserve levels are considered to be below the optimal level necessary, requiring the Council to establish a more prudent and sustainable level of reserves going forward.

COLLECTION FUND

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

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

94. These accounting arrangements have had an exceptional outcome between 2020-21 and 2022-23 due to the circumstances relating to the pandemic. The financial downturn caused collection rates to be substantially lower than those that were predicted. In addition, after the estimated receipts for 2020-21 were fixed, the Government introduced

emergency rate reliefs for particular business sectors. In the cases of both reduced collection rates and emergency rate reliefs, the Government implemented grant schemes to compensate authorities for the lost income.

95. Regulations require any deficit accumulated in 2020-21 to be spread over three years. In 2022-23, the in-year surplus on the NNDR account reduces the overall deficit from £107.2m to £20.8m. The Council's share of the distributed deficit in 2022-23 was £24.9m, and the impact of this has been eased by Section 31 grant spreading in 2022-23.

96. The in-year surplus on the Council Tax collection fund for 2022-23 is £1.8m, which has reduced the overall deficit from £3.0m to £1.3m; with the council's overall deficit share being £1.0m. Again, government funding is being used to smooth the impact in 2022-23 and 2023-24.

Earmarked Reserves

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

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

98. Table 3, below, summarises the net reserve movements during 2022-23 by category.

Table 3: Summary of Earmarked Reserves

Reserve Category	Opening Balance £'000	Movement £'000	Closing Balance £'000
COVID-19	25,872	(23,399)	2,473
Corporate projects and priorities	18,877	20,702	39,579
Service improvements and reviews	34,554	(580)	33,974
Capital programme	36,723	(963)	35,759
Strategic Financial Risk	58,097	1,081	59,178
Technical and smoothing	34,118	4,793	38,910
Total earmarked reserves	**208,241**	**1,634**	**209,873**

99. Overall, general fund earmarked reserves have remained stable in 2022-23. Whilst COVID-19 reserves have now largely been exhausted as planned, further funds have been set aside or repurposed for a range of priorities. These include;

Corporate projects and priorities

100. Reserve movements in the corporate projects and priorities category included;

- Increasing the amounts earmarked to support the Council's Cost of Living response (including support for Ukrainian and other refugees) by £8.4m
- Setting aside £4.5m to support the upgrade of the council's ERP system (the software used for finance, HR, payroll etc.)
- A range of commitments made via the 2023-24 budget including;
    - £3m for the Southwark 2030 fund
    - Amounts set aside for Older People's Food Security Pilot, a Living Wage Unit, Workers Rights reserve and a Windrush Commemoration Fund

Technical and Smoothing

101. Reserve movements in the Technical and Smoothing category included;

- Amounts set aside to support future years budgets through to 2025-26 (£2.5m annually)
- £2.8m set aside to smooth the impact of increasing Freedom Pass contributions reflecting normalising travel patterns post-covid. This will be released over the next two years to match the increasing levy from TFL.
- £1.7m earmarked to the Insurance reserve

102. For many years now, the council has 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 has this helped to protect council services but it has also allowed time to transition towards new ways of working, productivity improvements and efficiencies. An amount of £2.5m annually has now been set aside to support the next three budgets up to 2025-26.

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

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

General Fund Balance

105. Unallocated reserves are a key indicator of an authority's ability to cope with financial shocks. The CIPFA Financial Resilience Index places significant emphasis on this as an indicator of 'high risk'. Building financial resilience is imperative as we navigate our path to recovery and ensure that the council is well placed to meet future financial challenges.

106. The balance on the General Fund remains stable at £22.4m as at 31st March 2023.

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

107. 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

108. 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

109. The council is required to note the outturn revenue position on the general fund and housing revenue account in June in order to provide necessary context to the budget setting process for 2024-25 which will commence formally in July 2023.

REASONS FOR LATENESS

110. The statutory deadline for the publication of draft accounts is 31 May 2023. Completion and analysis of the accounts to inform the revenue outturn report necessitates late submission.

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 for month 8 onwards
Appendix B	Earmarked Reserves at 31 March 2023

AUDIT TRAIL

<table>
<tr><td>Cabinet member</td><td colspan="2">Councillor Stephanie Cryan, Communities, Democracy and Finance</td></tr>
<tr><td>Lead officer</td><td colspan="2">Clive Palfreyman, Strategic Director, Finance</td></tr>
<tr><td>Report author</td><td colspan="2">Tim Jones, Departmental Finance Manager</td></tr>
<tr><td>Version</td><td colspan="2">Final</td></tr>
<tr><td>Dated</td><td colspan="2">7 June 2023</td></tr>
<tr><td>Key Decision?</td><td colspan="2">Yes</td></tr>
<tr><td colspan="3">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</td></tr>
<tr><td>Officer Title</td><td>Comments Sought</td><td>Comments included</td></tr>
<tr><td>Assistant Chief Executive - Governance and Assurance</td><td>N/a</td><td>N/a</td></tr>
<tr><td>Strategic Director of Finance</td><td>N/a</td><td>N/a</td></tr>
<tr><td>Cabinet Member</td><td>Yes</td><td>Yes</td></tr>
<tr><td colspan="2">Date final report sent to constitutional team</td><td>7 June 2023</td></tr>
</table>