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Date:	22 July 2024
Report title:	Policy and Resources: Revenue Outturn Report 2023-24
Cabinet Member:	Councillor Stephanie Cryan, Equalities, Democracy and Finance
Ward(s) or groups affected:	All
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Reason for lateness (if applicable):	N/a

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

This report outlines the council's revenue outturn position for 2023-24. We continue to maintain 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.

I would like to thank cabinet and officers for driving through our budget commitments and for their hard work in ensuring we continue to have a robust General Fund, at a time when one in five councils are reporting they are likely to need to issue a Section 114 notice.

The report notes that the ongoing financial situation within the Housing Revenue Account and highlights the Recovery Plan we have put in place to ensure we are able to deliver on our statutory housing requirements and to ensure we are providing the right services our council tenants and leaseholders as well as dealing with the 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 having successfully negotiated a 'Safety Valve Agreement' with the Department of Education to help reduce historic debt, we are now starting to see a more positive financial outturn position.

- 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 continuing to see supply pressures with less properties becoming available on the rental market.

- The Housing Revenue Account is under very significant pressure due to historical decisions by the Government in respect of rent reductions and rent caps, and the increase in the number of repairs being reported and the new statutory requirements for building safety and tackling damp and mould. In addition, the Housing Capital Programme continues to be under pressure due to the impact of inflation and rising interest rates.

Looking ahead to the current financial year, the General Fund remains robust, despite the challenges and we keep an eye to the General Election and ask that any future Government commits to longer term funding certainty for Local Authorities through multi-year settlements.

RECOMMENDATIONS

Recommendation for the Cabinet to approve:

1. The interdepartmental budget movements that exceed £275k, as shown in Appendix 1.

Recommendations for the Cabinet to note:

2. The Housing Revenue Account (HRA) overspend of £16.4m and the mitigating actions, including additional borrowing required for Asset Management.

3. The utilisation of the £4m contingency together with £1.4m of risk reserve to offset the overall adverse variance and present a balanced general fund outturn position for 2023-24.

4. The key adverse variations and budget pressures and mitigating actions underlying the outturn position:

   (i) Housing Revenue Account (paragraphs 13-28)
   (ii) Home to school transport (paragraph 45)
   (iii) Pressures in the No Recourse to Public Funds (NRPF) (paragraph 58)
   (iv) The continuing budget pressures on Temporary Accommodation (paragraphs 75-76).

5. The interdepartmental general fund budget movements that are less than £275k as shown in Appendix 1.

6. The positive variance of £1.98m in the ring-fenced Dedicated Schools Grant (DSG) reducing the overall deficit to £9m as at 31 March 2024 (paragraph 47).

REASONS FOR RECOMMENDATIONS

7. Cabinet is asked to note the revenue outturn position for 2023-24 and budget movements below £275k. For movements above £275k the cabinet is required to approve these as required by the Financial Standing Orders.

ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

8. N/a

POST DECISION IMPLEMENTATION

9. N/a

BACKGROUND INFORMATION

10. This report sets out the outturn position for the housing revenue account, the general fund and dedicated schools grant for the 2023-24 financial year.

11. The cabinet agreed a balanced housing revenue account (HRA) budget on 17 January 2023. The budget monitoring report to January 2024 cabinet forecast a projected overspend of £16.8m for 2023-24, together with mitigations in place to contain this over the short, medium and long term. Paragraphs 13 to 28 show a small improvement in this position and details the medium and long term mitigations in place to ensure the financial sustainability of the HRA.

12. The council agreed a balanced general fund budget on 22 February 2023 including a 2.99% council tax increase and a contribution from earmarked reserves of £2.5m. The council also approved budget decisions which included efficiencies, savings and additional income generation of £16.4m within the general fund for 2023-24. Performance on achieving these savings was closely monitored and any significant variances are included in departmental narratives.

KEY ISSUES FOR CONSIDERATION

HOUSING REVENUE ACCOUNT (HRA) OUTTURN 2023-24

13. The council manages its housing stock through its ring-fenced landlord account, the Housing Revenue Account (HRA). The gross overspend on tenant facing budgets of £31.3m which is partially offset by financing and one-off underspends, showing a final adverse variance of £16.4m (Table 1) before mitigations to bring the HRA into a balanced position.

14. In order to balance the £16.4m overspend, capital spend that would normally have been funded through revenue contributions via the Major Repairs Reserve has been funded through additional unplanned borrowing. Overspends on the Asset Management programme mean that, including the £16.4m, a total of £59m has been borrowed for Asset Management in 2023-24. This is the first

time the council has had to do this, having previously earmarked all borrowing for the New Homes programme.

Table 1 HRA Outturn 2023-24

Category	Revised Budget	Outturn	Variance	Change since M8
	£000	£000	£000	£000
HRA Expenditure				
Resident Services (Housing Management)	59,636	73,181	13,545	2,838
Asset Management (Repairs and Maintenance)	69,629	85,323	15,694	3,373
New Homes	670	984	314	-180
Customer Services	5,272	7,091	1,819	109
Directorate	1,952	1,926	-26	205
Total Tenant Facing Services	**137,158**	**168,505**	**31,347**	**6,346**
Exchequer Services (incl. Homeowner Services)	16,439	19,642	3,203	-904
Central Services	31,958	26,949	-5,009	-1,521
Heating Account	15,498	24,145	8,647	4,905
Total Corporate Support Services	**63,895**	**70,736**	**6,841**	**2,480**
Debt Financing	32,505	25,066	-7,439	-3,436
Depreciation	53,000	46,857	-6,143	-4,643
Revenue Contribution to Capital	22,987	17,039	-5,948	1,652
Total Capital Financing	**108,492**	**88,962**	**-19,530**	**-3,947**
Capital, Financing and Support Services	**172,386**	**159,698**	**-12,688**	**-3,947**
Total HRA Expenditure	**309,545**	**328,203**	**18,658**	**2,399**
HRA Income				
Tenant and Homeowner Charges	-294,238	-295,626	-1,388	-2,662
Non-residential Property Charges	-15,307	-16,225	-918	-319
Total HRA Income	**-309,545**	**-311,851**	**-2,306**	**-2,981**
Total HRA	**0**	**16,352**	**16,352**	**-581**
Mitigation Measures to Balance the HRA				
Reduce Revenue Contribution to Capital		-13,815		
Application of Reserves		-2,537		
		0		

15. This position is the result of a number of factors, some of which are outside the council's control, such as government policy and macro-economic events which include:

Macro-economic factors

- The cumulative effect of a government imposed 1% rent reduction for four years for the period 2016-17 to 2019-20, running into hundreds of millions in income foregone
- A government imposed 7% cap on rents from 1st April 2023, when formula rent would have yielded 11.1%, an annual loss of £9m+ in the current year and a reduced income base going forward
- Unfunded additional burdens arising from the Fire Safety and Building Safety Acts of 2020 and 2021
- Unprecedented construction industry inflationary pressure

Internal Factors

- The additional borrowing requirement for the new homes and asset management programmes compounded by the impact of a three-fold increase in interest rates since December 2021, which has substantially increased the revenue impact of financing costs in the HRA.

HRA - Mitigating Actions

16. Previously, to address the situation, the council had collectively assessed options to manage the short-term pressure by reducing in-year spend. Additionally, more medium to longer term actions were undertaken to further moderate the future impact of this through, for example, the repairs improvement programme, an end-to-end review of void properties and the refresh of the asset management strategy. Additionally, the scheme of management has been reviewed and robust spending controls implemented. It continues to be a council strategic priority to consider how the HRA can be managed in the longer term to ensure financial sustainability, including:

- Setting cash limits within which services are required to operate
- Improving procurement practices and continue to embed more robust contract management to maximise outcomes and achieve value for money
- Agreeing a plan to maintain HRA reserves to their current level and to increase to a more prudent level over the medium term
- Continuing to lobby central government, for appropriate funding for social housing
- Limiting and ultimately repaying any borrowing for the asset management capital programme
- Maximising capital receipts through the sale of uneconomic assets and land in order to reduce the borrowing burden on the HRA
- Applying prudent viability criteria to all new build projects to minimise the need for borrowing

- Pausing a small number of new build schemes in order to limit the council's borrowing and ensure that interest repayments remain affordable
- Taking all necessary steps to limit the impact of capital financing on the HRA to an affordable level, taking into account all other service demands and priorities.

17. It should be noted that the pressures on the HRA are not unique to Southwark. The impact of the rent capping policy and rent increases below inflation, coupled with above inflation running costs, rising interest rates and energy costs are impacting on all councils responsible for social housing. But the impact is more pronounced for Southwark given it has the largest social housing stock in London and is the fourth largest social landlord in the country.

18. To protect the limited HRA reserves held, the deficit on the HRA will be managed by reducing the revenue contribution to funding capital expenditure. This is an approach that has been avoided previously as it adds additional pressure to the revenue account (through the interest payments on the borrowing) and it reduces the borrowing headroom available for the new build programme. This additional borrowing will increase the interest payable on debt by around £400k per year until repaid, further increasing the financial pressure into 2024-25 and beyond.

19. Additional borrowing of £59m has had to be undertaken for the asset management programme, which will incur additional interest payments over and above the legacy debt and borrowing for the new homes programme. This is an unprecedented step by the council as a short-term measure within the HRA recovery plan.

2023-24 Tenant Facing Services

20. For 2023-24, an additional budget provision of £11.4m was made across tenant facing services. Despite the actions mentioned above, the cost of these services has continued to rise, increasing by a further £6.3m since the month 8 monitoring report to cabinet. The cash limit for 2024-25 were agreed based on a forecast position before this further increase, therefore a greater level of spend reduction will now need to take place in 2024-25.

21. For resident services, the forecast has worsened to £13.5m, notwithstanding a budget uplift of £4.4m for 2023-24. The main pressure areas continue to comprise a higher volume and unit cost of estate voids, together with increases in the estate cleaning and grounds maintenance contract costs provided through the Environment, Neighbourhoods and Growth (ENG) department. This was predominantly driven by the 2023-24 pay award (which was higher than previously estimated). Other contributory factors are Tenant Management Organisation (TMO) costs, energy costs for estate lighting, council tax losses on long term voids and planned maintenance works on Tenant Resident Association (TRA) Halls.

22. Similarly for asset management, the forecast has increased to £15.7m, despite a budget increase of £6.4m this year. The main cost pressures continue to be on repairs and maintenance to the housing stock, particularly through Southwark Repairs, where the final deficit was £12.2m, together with communal works, disrepair, voids and ‘damp and mould’ remedial work.

23. Within the new homes division, the nature of the work is predominantly project specific, therefore a high proportion of costs are capitalised. This year, the overspend reduced from a forecast of £0.5m to a final value of £0.3m. However, as the programme slows and re-phasing takes place, it is anticipated that costs will start to reduce next year, which may impact on the level of capitalisation that can be charged and may give rise to abortive feasibility costs being charged to revenue.

24. Customer services has a relatively small revenue budget by comparison to others within the HRA (£5.3m), which covers a significant proportion of the costs of the contact centre, customer complaints and other housing specific services. Given extremely high call volumes and housing related activity the forecast has been revised to £1.8m over budget. This comprises the 2023- 24 pay award and additional resources that have been put in place to address severe capacity shortfalls, predominantly related to the repairs service and in anticipation of further call growth over the winter period.

Capital, Financing and Support Services

25. Whilst the cost of debt has increased following the decision to reduce the revenue contribution to fund capital expenditure, there have been other significant spend reductions in this area which has mitigated the increased expenditure in tenants facing services. An overall reduction in the forecast borrowing requirement has led to a re-phrasing of the interest payable. As interest rates payable on debt has increased, so has interest receivable on cash balances. This has generated a windfall of £6m. Depreciation on dwelling stock has been revalued downwards, further increasing the capacity to temporarily offset spending pressures elsewhere within the HRA.

Tenant and Homeowner Charges

26. The final tenant rents and service charge income was higher than forecast due to new homes coming on line, a reduction in the rents foregone on void properties and homeowner income from loan interest and charges.

HRA Recovery Plan

27. As mentioned above, cash limits have been agreed with service directors, who have been planning on how service delivery can be maximised within limited financial resources. The cash limits themselves fully distribute the planned HRA financial resources across services, with little held as an in year contingency. Therefore, there is limited scope for dealing with financial pressures not contained within these agreed cash limits, except for using already-diminishing reserves.

28. The overall recovery plan is also predicated on capital receipts from the disposal of appropriate properties. This process is on track to achieve the desired value of receipts.

GENERAL FUND OVERALL POSITION

29. The final outturn position for the general fund is balanced after movements in reserves and use of contingency, as set out in Table 2. 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 2023-24.

Table 2: 2023-24 General Fund outturn position

General Fund	Budget	Actuals	Reserve Movement	Total use of Resources	Variance after use of reserves
	£000	£000	£000	£000	£000
Children & Adults	175,240	172,585	2,655	175,239	(1)
Environment, Neighbourhoods and Growth	106,449	110,521	(3,822)	106,699	250
Housing	26,225	29,545	(194)	29,351	3,125
Finance	15,939	17,459	652	18,111	2,173
Governance and Assurance	25,516	25,896	(502)	25,394	(122)
Strategy and Communities	8,333	8,425	(89)	8,336	3
Support Cost Reallocations	(43,370)	(43,370)	-	(43,370)	-
Contribution from Reserves	(2,500)	(2,500)	-	(2,500)	-
General Fund Service Outturn Forecast	**311,833**	**318,560**	**(1,299)**	**317,261**	**5,429**
General Contingency	4,000	-	-	-	(4,000)
Risk reserves	-	-	(1,429)	(1,429)	(1,429)
Outturn	**315,833**	**318,560**	**(2,727)**	**315,833**	**-**

30. Overall, the financial performance of the general fund has been strong in 2023-24, despite significant challenges in the wider macro-economic environment, with high inflation and interest rates. The council has also experienced significant underlying demand-led pressures in several areas such as home to school transport, homelessness services and the costs of supporting those with ‘No Recourse to Public Funds’. Budget monitoring reports to cabinet have highlighted these pressures, which were mitigated through effective management activity, use of specific reserves earmarked for that purpose, and by the use of the contingency.

31. Despite these challenges, the council has continued to invest in initiatives to support those most impacted in the borough, including supporting the most vulnerable residents through the cost-of-living crisis.

32. Appendix 1 provides more detail on the in-year budget movements.

33. 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.

34. The following paragraphs outline in more detail the outturn by each directorate.

Children's and Adults' Services

35. 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 by working in partnership with finance, human resources (HR) and procurement achieved an overall balanced positon for the 2023-24 financial year.

36. The key areas of concern affecting the general fund include the pressure on the special educational needs transport services, increased demand for care packages in the Adult Social Care directorate and the increased complexity of need and cost, for those leaving hospital with 'high acuity care' needs. The department has built up reserves over the last few financial years to withstand some of these challenges, in a planned and purposeful way, over the short and medium term, and directors continue to practice strict financial management across all areas.

Adult Social Care

37. The adult social care division closed the year with a small favourable variance. This was achieved through ensuring that the additional funding was targeted most efficiently at those areas, particularly in placements, which have seen substantially increased demand and inflationary pressures. The service is actively seeking to manage demand, despite the ongoing pressures of hospital discharges and the resultant increased costs in homecare, nursing and residential care. The department has very high costs, driven by the increased complexity of client need, as well as higher than expected inflationary pressures from rising price and wage inflation.

38. 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. It is expected that the cost of implementation of the reforms will not be fully funded and will add to the pressures faced by the department.

Children's Social Care

39. 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 staffing cost pressures. 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.

40. The favourable position is also the result of a well-managed reduction in demand for statutory social care services, primarily lower numbers of children in care, which has been somewhat offset by the increased numbers of care leavers and higher cost placements. There are still concerns that the cost-of-living crisis, 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.

41. The service is also working hard with commissioning and corporate colleagues to address the lack of sufficient placements through opening two children's homes and increasing the capacity of commissioned semi-independent accommodation providers within the borough. 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

42. The commissioning division has ended the year with a favourable variance. This is mainly due to the vacancies across the division. Vacancies were held in the commissioning business unit due to a national restructure across the Integrated Care Systems (ICS) in England; and following a restructure in the systems team where there were vacancies which have largely been recruited to. There is an expectation that these vacancies will be filled next financial year.

43. The division has posts that are joint funded by the council and Integrated Care Board (ICB), and further integration is progressing positively with the expectation of the Place Executive Lead for Southwark within the revised joint post starting in June 2024.

44. The division continues to implement the Southwark Residential Care Charter and is using the Southwark supplement to support payments for the workforce in relation to London Living Wage, Occupational Sick Pay, and other benefits. Implementation within the borough's care home sector means that already about 75% of our care home workforce are benefitting from this policy.

Education

45. Education services closed the year with an unfavourable variance. Home to school transport remains the key driver for financial pressures in the education

general fund. While home to school transport is still a key pressure area for the service there has been a reduction in expenditure in comparison to previous years which can be attributable savings and mitigating activities such as the promotion of direct payments and implementation of independent travel training lead. The service is planning to continue with these initiatives in order to further mitigate pressure on the budget.

46. In addition, the Special Education Needs and Disability (SEND) strategy is expected to develop in-borough provision which would reduce the number of children requiring transport out of the borough. These actions sit within a wider review of SEND and strategic work to better manage costs and demand for SEND provision.

Dedicated School Grant

47. The ring-fenced Dedicated Schools Grant (DSG) achieved a favourable outturn of £1.98m which is mainly due to an improved position on the high needs block against the forecast. Despite this year's favourable outturn, the High Needs Block remains the main risk area for the DSG as this area has seen an averaged increased expenditure of 6% over the last 5 years. It is expected that the achievement of long-term sustainability and continued in year balanced position will be affected by the fluctuations in demand for EHCP's as this is a highly demand led service area. In particular, through commissioning work focused on reducing reliance on Independent Non-Maintained Special Schools and focusing on establishing 16-25 pathways to achieve better outcomes for young people.

48. 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, the DfE provides additional funding to eliminate the accumulated deficit on the council's balance sheet. The council received £3.8m from the DfE by the end of 2023-24, bringing the accumulated deficit to £9m on the balance sheet. The achievement of future key milestones will be very challenging and will mean all aspects of the service provision will need to be reviewed. The service, in conjunction with the High Needs sub-group of the School's Forum, HR, finance and commissioning have developed detailed action plans which underpin recovery. There is oversight of this work by strategic directors, and political oversight by the Deputy Leader.

49. There is also a continuing concern about the financial position of the council's maintained schools. This is mainly due to the continued falling roles that has been experienced across all London boroughs. Due to the close link between pupil numbers and the funding schools, a number of maintained schools are experiencing financial difficulties. The council's Keeping Education Strong strategy has been working towards right sizing the school estate. This strategy has led to pupil admission reductions, amalgamations, mergers and school closures to ensure provision matches need and is sustainable.

Public Health

50. The Public Health ring fenced grant has achieved a favourable outturn for 2023-24. This was transferred into the Public Health Reserve to provide a reserve to deal with future financial uncertainties. The service has benefited from the released Greater London Authority (GLA) funding for key stage two KS2 meals for the 2023-24 academic year. This released funding has been used and earmarked for future use for specific projects to support families with the cost of living crisis, including the introduction of a targeted secondary school meal offer for 2 academic years, continuation of Holiday Food and Fun initiatives as well as additional school based nursery food support.

51. The public health grant is a ring-fenced grant paid to local authorities from the Department for Health and Social Care (DHSC). It is used to provide preventative and early help services aimed at improving health and wellbeing in the borough through evidence based interventions. This includes commissioning drug and alcohol services, children's health services, sexual health services, smoking cessation, preventive cardiovascular health checks, exercise on referral and weight management services as well as gathering, analysing and interpreting information that influences the decisions made by public health, the council and the NHS. The grant also covers delivery of a large policy portfolio, providing strategic advice and guidance on matters relating to health and wellbeing, from suicide prevention through to sexual and reproductive health, mental health and wellbeing, tobacco control, immunisation and screening, health protection and healthy places (regeneration, transport systems, urban planning, culture & leisure).

52. The current cost of living crisis is having wide-ranging negative impacts on mental and physical health and well-being. Public health plays a vital role in mitigating these effects. Initiatives include introducing free targeted secondary school meals, building on the successful free healthy primary school meal offer, an extensive holiday activity and food programme and outreach health promotion activities including programmes to increase HIV diagnosis and take up of cancer screening and vaccinations.

ENVIRONMENT, NEIGHBOURHOODS AND GROWTH

53. The reported outturn for the Environment, Neighbourhoods and Growth department is an adverse variance of £0.25m after a net transfer from reserves. This represents a favourable movement of £1m from month 8 reporting. This is due to a number of “one-off” favourable movements:

    - Various departmental underspends due to vacancies and other smaller underspends against operational budgets
    - Net favourable compensation payments received from a legacy case within the leisure division.
    - Additional income from various services within the department.

54. The overspend in ‘No Recourse to Public Funds’ (NRPF) budgets of £1.6m, have been partially offset by additional income from various services within the environment directorate, underspends against service budgets within the leisure directorate as well as a “one-off” compensation payments and other minor variances.

55. The revised budget reflects the approved structure changes that resulted from ‘Planning & Growth’ and ‘Local Economy’ team transferring into the finance department.

Environment

56. The directorate is reporting a favourable outturn variance of £0.31m (down £0.7m from month 8) due to additional costs from ill-health retirement and additional bad debt provisions in the waste and cleansing division and after net transfers to reserves of income received in advance for private rented service licenses and transfers into the ring-fenced streets for people reserve account (which has restrictions on spending).

Leisure

57. The directorate is reporting a £1m favourable outturn position (£0.8m improvement on the month 8 position) mainly due to underspends against operational budgets as well as a significant “one-off” compensation payment received. It had been previously flagged that due to the transitory nature of the leisure centre insourcing programme, the outturn position is likely to be volatile, however, this favourable movement helps to support the wider departmental position.

Stronger Neighbourhoods

58. The directorate is currently reporting an adverse variance of £1.6m (a £0.1m adverse movement from month 8) mainly arising from the impact of the cost of living crisis on individuals and families subject to ‘no recourse to public funds’ (NRPF) which has increased demand for support, resulting in significant increases in client payments and accommodation costs. It is worth noting, the NRPF overspend is a national trend and recent data from the NRPF network shows a 10% increase in the number of cases and a 22% increase in spend due to cost of living pressures which is particularly acute in London.

59. Additional funding was secured as part of the 2024-25 budget cycle, which covers 44% of the reported extra cost. Officers intend to engage in a deep dive service review to identify further opportunities to manage down costs.

Climate Change & Sustainability

60. The directorate is currently reporting a small underspend after allowing for bad debt provisions of £13k.

Planned movement in Reserves

61. The main movements in reserves include a drawn down of £4.7m from reserves in 2023-24 to cover the leisure services mobilisation costs and the “Fairer Greener Safer streets”, together with other smaller priority projects costs. A new reserve is being setup for the private rented service license’ fees which are received in advance and to be drawn down over a 5 year period to cover the costs of providing this service. The reserve is currently estimated to total £6.45m by the year end. The department expects to top up the ‘Highways Transformation’ reserve by £6.8m to ensure adequate provisions are built up to deliver the council’s transport related strategies, including “streets for people”.

PLANNING & GROWTH

Overview

62. The draft outturn for the Planning and Growth directorate is a very small overspend (after a proposed drawdown from reserves of £0.75m, as well as the creation of new reserves totaling £6.5m covering S106/CIL funding for both the planning and local economy team). This represents a favourable movement of £0.75m from month 8 and is due to the allocation of S106/CIL funding received in prior years to cover allowable expenditure. Key variances before allocation are as followings:

- Shortfall in commercial income due to voids and vacant possession £720k
- Legal costs for public enquiry of the New City Court case, as well as a shortfall in planning income.

63. The revised budget reflects the approved structure changes that resulted in the ‘Planning and Growth’ and the ‘Local Economy’ team transferred into the finance department.

Planning and Growth

64. The directorate is currently reporting a breakeven position, an improvement of £0.8m on the month 8 position. This is mainly due to additional cost recovery from S106/CIL, capital projects, operational underspends, as well as drawdown from reserves for the public enquiry costs of the New City Court case. The directorate will be transferring the balance of its S106/CIL admin funding to an earmarked reserve.

Local Economy

65. The directorate is currently reporting a nil variance and will be transferring its S106 funding for employment initiatives to an earmarked reserve.

Planned movement in Reserves

66. The directorate will be setting up two new reserves, the first one for the local economy team to hold the S106 employment funding received in prior years and earmarked for such initiatives. The current carry forward for this reserve will be £5.5m. The second reserve will be for the S106/CIL planning admin funding and totals £0.95m.

STRATEGY & COMMUNITIES

Overview

67. The Strategy and Communities department is currently forecasting a balanced outturn position for 2023-24. This is after planned drawdowns from relevant reserves of £235k.

68. The department has managed to fund the majority of the additional priority activities mainly from underspends against the departments salary budgets and a small drawdown from its reserves, as it continues to recruit to the new posts created as part of its restructure.

Planned movement in Reserves

69. The directorate plans to draw down £19k from its capacity building reserve to fund a small proportion of the one-off work on Southwark 2030, the Future Southwark team and other corporate change delivery work, after covering the majority of this work from operational budget underspends, leaving a balance of £2.2m to be carried forward to 2024-25 to fund all corporate change delivery work going forward, as the department completes its current recruitment drive and restructure.

70. In addition, £215.8k will be drawn down from the Voluntary Sector Small Grant Support Scheme reserve to cover Grant awards, leaving a balance of £175.5k to be carried forward to 2024-25.

HOUSING GENERAL FUND OUTTURN 2023-24

Overview

71. The outturn for 2023-24 shows an unfavourable variance of £3.3m (gross) and £3.1m net of planned reserve movements. This is primarily caused by the continuing budget pressure in homelessness, offset by positive variations elsewhere across the department.

Asset Management - Private Sector Building Safety

72. The Private Sector Building Safety Programme was established during 2021 to undertake inspections and enforcement on high rise residential blocks with specific focus on Aluminium Composite Material (ACM) cladding. Subsequently, the scope of the programme has increased to non-ACM high-

rise buildings as more onerous legislative building safety requirements have been introduced, including enforcement action on private sector landlords. Funding is through a combination of base budget and grant funding from the Department for Levelling Up, Housing and Communities (DLUHC). Residual in-year grant funding is being carried forward as a reserve to meet future programme commitments, without the need for any additional base budget commitment.

Resident Services – Hostel Accommodation and Support and Travellers Sites

73. In April 2023, the council in-sourced three hostels previously run by external providers, with the resident services division assuming operational and management responsibility. Given full occupation, rents and service charge income should broadly cover the operational costs, however, void loss was higher than budgeted for and under the inter-departmental agreement with Children's and Adult Services (CAS), budget shortfalls are underwritten (£63k). Measures to minimise void loss going forward have been agreed and implemented.

74. The council operates four traveller's sites, one of which is currently vacant pending refurbishment works. This along with a long-term staff vacancy and reduction in provision has contributed to the lower costs this year.

Resident Services - Temporary Accommodation and Housing Solutions

75. Homeless approaches and acceptances had remained relatively stable over the first half of the year to September, but the caseload has risen steadily since then. Supply-side scarcity and increased charge rates account for the increase in costs to £3.8m, net of reserve funding (£560k), to provide additional capacity to meet demand and increase throughput. There has been a noticeable rise in providers exiting the private rental market in response to declining financial returns and a shift towards more expensive nightly-paid agreements, over which the council has little control if it wishes to retain supply.

76. No effective controls exist to regulate rents in the private sector and with restrictions placed on Local Housing Allowance (LHA) rates for council supply, this will inevitably increase demand for local authority provision, which is also being exacerbated by Home Office asylum cases. However, as part of the Autumn Statement (22 November 2023), the Chancellor announced a welcomed uplift in private sector LHA rates, which should help increase private sector discharge rates and allow the service to focus more on prevention. The mitigations in place are detailed in appendix B to this report.

FINANCE

77. The Finance department comprises of finance and exchequer services, technology and digital services (TDS), with a move during the year for the planning and growth and local economy teams. Overall, the department is projecting an adverse variance of £2.2m, after an expected contribution of

£3.3m from the cost of living reserve. The main pressure is in the customer services department due to a significant increase in administrative burdens and technology and digital services.

Technology and Digital Services (TDS)

78. The Technology and Digital Service remains committed to providing the essential tools, capabilities, and infrastructure to ensure that all residents can access digital technology and reap its numerous benefits.

79. Operational delivery of IT infrastructure and support services is managed through a collaborative agreement with the London Borough of Brent and Lewisham, forming the Shared Technology Service (STS). The tech landscape presents several challenges, including the risk of cyberattacks and data breaches, which could result in financial and reputational harm. This necessitates ongoing investment in and implementation of cybersecurity measures. The shift towards cloud computing offers improved security and other advantages such as the flexibility and scalability needed to meet the council's evolving requirements. Additional significant efforts include the creation of data platforms that enhance service delivery to residents by fostering more integrated and informed approaches, thereby elevating the quality of life for the community. The service continues to offer technological and digital support, alongside strategic business partnering advice, to all council departments, facilitating efficient service provision and business improvements aligned with the five key pillars outlined in the Technology and Digital Strategy for 2024-2026.

80. In terms of finances, the TDS's costs exceeded the budget by £490k, a rise from the previous month 8 forecast of £336k. While efforts are made to keep expenses within the budget, the rapid pace of technological evolution can lead to unforeseen costs, such as the need for specialised skills and expertise to complement Southwark's workforce. Other financial pressures stem from the rising costs of technology due to an increase in users.

GOVERNANCE AND ASSURANCE

81. The Governance and Assurance department comprises of Legal and Governance services, Human Resources (HR) and Corporate Facilities Management (CFM). Overall, this is showing a positive variance of £122k.

82. Corporate Facilities Management (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 is the first full year of the outsourced FM contract, which did deliver a cost saving on like for like services albeit that the contract mobilisation and asset verification process did result in a contract variation of £1.1m over four years. Alongside the outsourced FM contract, CFM delivered a full year of insourced cleaning to both the Tooley Street and the Queens Road sites. The nature of cleaning services are such that it is necessary to engage additional agency support to supplement staff directly employed which together with

shortfalls in certain key management roles has seen the CFM employees budget come under pressure.

83. In 2023-24 there was also significant pressure on utilities budgets of circa £1m which has been mitigated corporately through a one-off budget virement. Gas and electricity costs do fluctuate and while they are expected to fall in 2024-25, the budget is likely to require further support going forward.

84. However, CFM no longer faces significant pressures as a result of providing additional Covid related services and has successfully delivered a full capital programme generating fees in excess of those planned, which with other variances, both favourable and adverse and a reduction in the day to day cost of FM has seen the service deliver a positive budget variance of £308k.

85. HR, governance and assurance are showing an adverse variance of £185k on staffing costs after the application of application of reserves, including the HR transformation reserve, which has been established to support the costs associated with moving to a new HR model.

CONTINGENCY AND RESERVES

86. The £4m contingency budget has been utilised to offset in-year budget pressures, together with £1.4m from earmarked risk reserves

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

87. This is the budget outturn report for 2023-24 that monitors expenditure on council services, compared to the planned general fund budget agreed in February 2023, and HRA budget agreed in January 2023. Although as an outturn 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

88. There are no climate change implications arising directly from this report, which provides the revenue outturn position for 2023-24.

Resource implications

89. This report is the outturn report which details the budgetary outcomes in 2023-

Consultation

90. No consultation has taken place as this report details the 2023-24 revenue budget outturn.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Assistant Chief Executive (Governance and Assurance) (NBC 16.05.2024)

91. Section 151 of the Local Government Act 1972 requires the Council to make such arrangements for the proper administration of their financial affairs. In addition, Section 25 of the Local Government Act 2003 requires the chief finance officer to report on the robustness of the estimates made and the adequacy of the proposed financial reserves in the budget calculations.

92. Section 28 of the Local Government Act 2003 imposes a duty on the council to monitor its budgets throughout the financial year. The council must take necessary appropriate action to deal with any deterioration in the financial position revealed by the review. This report sets out the current situation regarding the general fund capital programme indicating that the costs can be contained within the current funding envelope. It also sets out the position regarding the housing investment programme.

93. Section 114 of the Local Government Finance Act 1988 requires the chief finance officer to report if there is or is likely to be unlawful expenditure or an unbalanced budget.

94. The keeping of the Housing Revenue Account (HRA) is governed by Schedule 4 of the Local Government and Housing Act 1989. On 10 November 2020, the Ministry of Housing, Communities and Local Government (MHCLG) published guidance on the operation of the ring-fenced HRA account. The guidance updated and replaced previous guidance and the Council should adhere to such guidance in relation to the HRA.

95. Section 76 of the Local Government and Housing Act 1989 requires the Council to prevent debit balances on the Housing Revenue Account. The council has a duty to maintain a balanced budget throughout the year and, accordingly, members are required to regularly monitor the council's financial position.

96. Decisions regarding the strategic aspects of the regulation and control of the council's finances are reserved to the cabinet in accordance with Part 3B of the constitution. This part refers to the cabinet having responsibility for the “council's revenue and capital budgets, including the housing revenue account, ensuring effective financial control and the achievement of value for money, within the provisions of financial standing orders. The Financial Standing Orders require the chief finance officer to report on the overall financial position of the council and on capital expenditure incurred by the council to the cabinet on a regular basis.

97. The council is required under section 149 of the Equality Act 2010 to have due regard to the need to:

- Eliminate unlawful discrimination harassment and victimisation
- Advance equality of opportunity between people who share protected characteristics and those who do not
- Foster good relations between people who share protected characteristics and those who do not.

98. Cabinet needs to take account of this duty in considering this report.

99. The Community, equalities (including socio-economic) and health impacts section above indicates that whilst 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.

100. The public sector equality duty is a continuing duty and will need to be taken account of in any processes to mitigate budget pressures.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
Appendix 1	Interdepartmental budget movements to be approved

AUDIT TRAIL

Cabinet Member	Councillor Stephanie Cryan, Equalities, Democracy and Finance	
Lead Officer	Clive Palfreyman, Strategic Director of Finance	
Report Author	Tim Jones, Director of Corporate Finance.	
Version	Final	
Dated	3 July 2024	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Assistant Chief Executive, Governance and Assurance	Yes	Yes
Strategic Director, Finance	N/a	N/a
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		3 July 2024