

Item No. 10.	Classification: Open	Date: 19 July 2011	Meeting Name: Cabinet
Report title:		Revenue Outturn Report 2010/11, including treasury management	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Richard Livingstone, Finance, Resources and Community Safety	

FOREWORD – COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY

This report sets out the council's financial position against its budget for the past financial year, and asks Cabinet to approve the budget adjustments set out in appendix A.

The report identifies that whilst there were adverse variances in a number of budgets, these were all small in relation to the departmental budget size. The net adverse variance for all departments was £94,000 against budget totals of £360m (i.e. only 0.03%). This represents considerable progress made during the year to address unfavourable variances, as requested by Cabinet in its consideration of the quarterly monitoring reports through 2010/11. The achievement of this is particularly laudable in the context of the unprecedented in-year cuts imposed by government.

The report also identifies that we have had to use £13m of our reserves during the year, mainly to support services in invest to save opportunities and for redundancy costs to enable the council to weather the cuts that the council faces over the forthcoming years - the largest in the borough's history.

Sound financial management has allowed some replenishing of these reserves. However, it should be noted that £5.9m of this contribution arises from technical adjustments relating to the first five years' rental charge on Tooley Street (as a result of the initial 18-month rent free period) and the smoothing of the waste PFI unitary charge. The latter contribution will be used to cover the longer-term life cycle cost of the project. A further £4.3m has come from the performance reward grant which the council received as a result of meeting its government targets - this grant has been abolished for future years by the new government.

The report also details the Housing Revenue Account, which has achieved a favourable variance of £6.5m in its budget, compared to the £2.8m adverse variance projected in quarter 3. This represents considerable improvement across a range of high value budgets. In addition the level of revenue support required for capital expenditure is lower than forecast in line with programme delivery, but will accelerate following approval of the Council's five year Housing Investment Programme. However, this does not represent a recurring favourable variance position moving forward. The in-year surplus is returned to

HRA reserves which are now at a more sustainable level, particularly in view of the uncertainties arising from the introduction of self-financing next April.

The report also identifies that the year-end position for the collection fund was a deficit of £142k, due to an increase in the discounts applied.

Schools budget balances and the Dedicated Schools Grant reserve have both grown in 2010/11.

On the council's treasury management, it should be noted that no debt matured in 2010/11 and so replacement finance has not been needed.

RECOMMENDATIONS

1. That the Cabinet approves the budget movements in Appendix A.
2. That the Cabinet:
 - notes the general fund outturn for 2010/11;
 - notes the release of £11.3m of reserves to support services and £1.7m for capital purposes;
 - notes the overall net reduction in reserves of £2.5m, prior to technical adjustments;
 - notes the favourable variance of £3.906m on the general fund which has been taken to the modernisation reserve;
 - notes the favourable variance of £2.361m on the schools budget which has been taken to the dedicated schools grant reserve
 - notes housing revenue account's (HRA) outturn for 2010/11 and movement on reserves;
 - notes the achievements of savings against the budgeted targets for the year;
 - notes the collection fund's year-end surplus balance;
 - notes the treasury management activity for the year.

BACKGROUND INFORMATION

3. The purpose of this report is to present the council's financial position for the general fund, the HRA and planned use of reserves and balances for 2010/11. It also reports on specific performance in meeting targets for budget savings, the outturn position on the collection fund and the treasury management activity for the year. Any key variations against budget are explained.

KEY ISSUES FOR CONSIDERATION

General fund overall position

4. In February 2010, Council Assembly set a net budget for the year 2010/11 of £319.9m. Table 1 below provides an outturn position of net expenditure against budget.

Table 1: General fund outturn position for 2010/11 at year end

General fund	2010/11 Original budget £'000	Budget movements £'000	2010/11 revised budget £'000	2010/11 outturn £'000	Variance - over / (under) £'000	Q3 Variance - over / (under) £'000
Children's services	99,674	1,371	101,045	101,084	39	600
Health and community services	118,810	(1,484)	117,326	117,670	344	824
Environment and housing Regeneration and neighbourhoods and major projects	76,074	427	76,501	76,432	(69)	(32)
Deputy chief executive	30,296	(6,029)	24,267	24,228	(39)	(283)
Communities, law and governance	46,271	5,933	52,204	52,113	(91)	(12)
Finance and resources & strategic financing	13,070	(317)	12,753	12,601	(152)	(100)
SCR income	32,333	2,547	34,880	34,942	62	(35)
	(58,858)	84	(58,774)	(58,774)	0	0
Total general fund before appropriations	357,670	2,532	360,202	360,296	94	962
Contingency	4,000	0	4,000	0	(4,000)	0
Appropriations to/(from) reserves	2,195	(5,334)	(3,139)	(3,139)	0	0
General fund total	363,865	(2,802)	361,063	357,157	(3,906)	962
Area based grant	(43,956)	2,802	(41,154)	(41,154)	0	0
Net general fund total	319,909	0	319,909	316,003	(3,906)	962

5. 2010/11 was a very challenging year for all services. The council faced unprecedented in year funding cuts following the government's emergency budget announcements in June 2010. All services directors responded to manage their services and budgets to bring the council, overall, in on budget. Due to the strict controls on spend which service directors have managed, the table shows an overall small unfavourable variance of £94k on the 2010/11 budget for services.
6. The above table shows a net budget movement on reserves of some £5.3m. Adjusting this figure for the technical reserve adjustments of £5.9m explained in paragraph 65 below, gives a total release of reserves figure of £11.3m for specific issues within the services. Without this funding, the services would be reporting an unfavourable variance of over £11.4m. Further details on reserve movements are included in paragraphs 57 to 66.
7. The 2010/11 budget included a contingency of £4m in recognition of the uncertainties inherent in a budget of £360m, representing around 1% of net budget. The use of reserves has meant that the council has not had to call upon this contingency. This balance is to be used to replenish the modernisation reserve, which is held to support the redesign of services and invest to save projects to make the council fit for the future. Further comment on the general fund contingency is included in paragraphs 36 to 37.

8. Further details on each of the services is given in paragraphs 10 to 35 below, and highlights significant issues through the year.
9. As part of the setting of the 2010/11 general fund budget, the Council committed to a programme of savings and efficiencies of £13.4m. The outturn position reflects the delivery of these savings targets, and savings are discussed further in paragraphs 46 to 54 and Table 4.

Key general fund variances

Children's services: Core / Non schools budget

10. Overall Children's Services has a balanced budget position at the end of the year, compared to the adverse variance forecast at the end of quarter 3.
11. The underlying pressures continued to be the result of increasing demand on services including: children looked after placements; children with disabilities placements and care packages; and supporting vulnerable families with no recourse to public funds.
12. There have also been underlying home to school contract pressures which were mitigated by favourable variances elsewhere in children's services. There are plans to address the transport pressure through a revision of the policies and contract tender, however, this is unlikely to be fully realised until the next financial year.
13. The variance is in the context of a £2.7m reduction in grants in year, which reduced the service's flexibility to absorb cost pressures. Although the majority of the in year cuts were contained, it was not possible to absorb the totality of the area based grant (ABG) reduction.

Health and community services

14. The outturn adverse variance of £344k represents an improvement of £480k compared to the £824k adverse forecast as at the end of quarter 3.
15. Main pressure areas were placements for younger disabled people and delays to the transfer from residential to community based care.
16. Management action continued to be taken across department to contain cost pressures and included:
 - Close review of new placements made to minimise the use of expensive residential care
 - Better procurement of all purchased care to ensure lowest possible price
 - Holding staff vacancies and limiting use of agency staff
 - Re-assessing existing care packages, both in and out of Borough
 - Maximising all potential income streams.
17. The success of this action meant continued reduction in costs during the year.

Environment and housing

18. The overall positive variance of £69k is an improvement of £37k from the position forecast at the end of quarter 3, reflecting significant work by officers to enforce budgetary targets. The decision to bring forward some of the restructures required to achieve the savings target set for 2011/12 and not filling some of the vacancies contributed to the improvement.
19. Previously forecast service closure costs for the Camberwell and other leisure centres were significantly reduced by robust contract negotiation. Other service pressures due to the impact of the area based grant reduction, agreeing funding recharges to other departments, a reduction in parking income and delays in the implementation of the new structure in the wardens service were all addressed.
20. Management action continued to consolidate the improvement in the overall departmental variance.

Regeneration and neighbourhoods

21. The department has a small favourable variance of £39k compared to a favourable variance of £283k reported at quarter 3. This movement has been caused by two main components;
 - Planned use of the forecast favourable variance as a revenue contribution to support the capital programme.
 - Cost pressures arising from the conclusion of departmental restructuring matched by management action to negate these effects.
22. Within major projects, a planned reduction in expenditure has addressed other divisional cost pressures. In the planning and transport division, whilst the forecast level of income was down against budget, planned reductions in costs prevented a more severe variance.
23. In the housing strategy and options division, the conclusion of the restructuring associated with the creation of the housing services department has contributed to an adverse variance. These pressures were managed by controlling staff vacancies and reducing expenditure in the business support division.
24. These components taken together, have contributed to the near break even position reported.

Finance and resources and strategic financing

25. The department has managed to contain revenue spending within budget, with a small unfavourable variance at outturn of £3k. This position is the result of a range of variances across the department contributing to this consolidated position.
26. The remaining small unfavourable variance of £59k is as a result of a range of variances within centrally held corporate budgets.

Deputy chief executive (DCE)

27. DCE has achieved an outturn position that is very close to the original budget. The total net position represents a small favourable variation of £90k for the year. This has been achieved in the context of significant organisational change, the transition of the Revenues and Benefits service from an external service provider to an in house team and with demand pressures on the Customer Service Centre (CSC) being higher than expected leading to higher costs than had been estimated.
28. Pressures on the DCE budget have been mitigated largely by way of favourable variances for the year achieved within the Corporate Strategy unit (£599k) resulting from a major restructure of the team and from within the Communications unit (£233k) as a result of reductions in campaign activity principally around 'Southwark Life' and 'eCommunications'. Other DCE services have contributed further favourable variations of approximately £12k. These favourable variations amount to £844k in total for the year.
29. The adverse variations have arisen as a result of unavoidable costs. The coroner's service has incurred additional costs of £70k due to the employment of an interim coroner following the death in service of the previous incumbent. The Client Services pressure relates to a combination of factors relating mainly to higher than anticipated transaction volumes in One Stop Shops which have not been possible to control in year. In addition, the new arrangements introduced to support improved service to the public with regards to Freedom Passes has created additional one off costs. Together these CSC related pressures have amounted to around £720k.
30. While overall a favourable position is reported for the department, action is already underway, especially with reference to CSC operations, to ensure that these pressures are managed through 2011/12.

Communities, law and governance (CLG)

31. The overall favourable variance of £152k is due to a number of variances across several teams, most notably member services, and is largely due to management action to avoid filling posts ahead of the need for future savings.
32. The improvement from quarter 3 has been caused by an unexpected increase in activity in land charges and by the receipt of central government compensation for removing the power to charge for personal searches. In addition, legal services received significant levels of external income relating to the property and planning processes in the last quarter amounting to some £100k.
33. The loss of ABG/WNF funding for 2011/12 has meant that grant funded posts have been left vacant in the last quarter of 2010/11 causing a £40k positive movement against general fund budgets.
34. The remaining movement in position is caused by expected reorganisational costs now occurring in 2011/12.

Support Cost Reallocations

35. Support cost reallocations are the costs of the central departments (Finance and Resources, Deputy Chief Executive, Communities, Law and Governance) which are recharged to service departments with accompanying budgets so the issue becomes accounting rather than recharging. The process is governed by the best value accounting code of practice, a code endorsed by the Chartered Institute of Public Finance and Accountancy. The code requires that local authorities disclose the total cost of front-line services in their statement of accounts. In 2010/11 £58.8m of support costs were recharged across service departments to reflect the true costs of services. For the general fund services this was matched by their budget.

General fund contingency

36. Southwark council had planned for a £4m contingency as part of 2010/11 accounts. This was to enable the council to have sufficient flexibility to respond to the impact of economic uncertainty, service pressures, and any unforeseen events.
37. As describe earlier, the Council was able to use reserves to manage the various service pressures that arose during 2010/11. The £4m contingency, less the small unfavourable variance of £94k on general fund services, is transferred to the modernisation reserve, where it will be used to address one-off pressures such as redundancy costs arising from restructuring due to savings requirements, and for invest to save initiatives, aimed at improving the efficiency of services. This will help mitigate the £11.3m use of reserves in 2010/11.

Schools budget

38. The DSG budget has a favourable variance of £2.4m. The most significant budget variances supporting the final DSG position are: £1.14m favourable variance on free early years' entitlement, partially attributable to lower activity than predicted; £648k favourable variance on the budget addressing schools in financial difficulty; and effective use of other funding resources identified as part of the year end process.

Table 2: Schools budget outturn position 2010/11

Schools	2010/11 Original budget £'000	Budget movements £'000	2010/11 revised budget £'000	2010/11 outturn £'000	Variance - over / (under) £'000	Q3 Variance - over / (under) £'000
Schools budget	0	(640)	(640)	(3,001)	(2,361)	0
Appropriation to/(from) schools balance reserves	0	640	640	640	0	0
Schools budget total	0	0	0	(2,361)	(2,361)	0
Appropriation to DSG reserve				2,361	2,361	0

39. Each school is able to hold a balance of money to support their school activities. Total schools' balances as at 31/03/11 have increased by £640k to £10.8m.

Housing revenue account (HRA)

40. The headline outturn shows a £6.45m positive variance for the year, which is a significant improvement over earlier forecasts, but contains a number of items of an exceptional nature that have contributed to this position at a late stage. To set this in context, previous reports have referred to underlying spending pressure across the piece and the forecasts have been necessarily cautious in this regard. Whilst pressure remains to spend on the fabric of the housing stock, management action during the year has stabilised the position and established more robust control of high volume, high value budgets, such as repairs, engineering and heating through enhanced contract management, such that housing management is broadly on budget overall. The net expenditure position is presented in Table 3.
41. Other major factors that contribute to the position are the release of the final tranche of the House of Lords provision for tax leasing (£3.5m) which was intended to mitigate the resource shortfall in the Housing Investment Programme (HIP) in 2010/11, but has not been required as capital spend was lower than expected. This has therefore been retained in the revenue account and applied to reserves. This has not been previously reported as the expectation was that it would be spent in year.
42. The heating account shows a net surplus of £1.5m for the year and has been applied to the existing reserve held to smooth out fluctuations in energy costs. For 2011/12, heating charges were not increased in the expectation that any shortfall in year would be met from the accumulated funds held in reserves. The variance has not been previously reported as any surplus/ deficit is ring-fenced within the HRA and cannot be used for other purposes.
43. Tenant rent and service charge income shows improvement, as the debit raised is higher than budget due to lower voids and stock loss from regeneration projects. Conversely, non-residential rents were not increased during 2010/11 as expected, resulting in a shortfall against budget, which has been offset by a specific contingency within the HRA.
44. Major regeneration schemes involving large-scale re-housing continue to place a considerable financial strain on HRA resources. Exceptional cost items, such as the fires at Lakanal and Sumner Road compound this position, and these were the primary contributory factors to the unfavourable variance in 2009/10. For 2010/11, expectations were that these would continue to exceed budget, but this has not materialised as re-housing from Heygate completes and activity on Aylesbury has temporarily slowed due to the uncertainty following withdrawal of PFI funding. Combined variance against budget is £600k.
45. The ring-fenced nature of the HRA requires that deficits/surpluses are carried forward between years giving rise to movement in the level of reserves. Previous reports have indicated that reserves were considered to be below the optimum level commensurate with the size of Southwark's combined revenue and capital programmes and represented a financial risk. The positive movement in reserves in 2010/11 provides a more sustainable position moving forward and mitigates that risk.

Table 3: HRA outturn position for 2010/11

	2010/11 Original Budget	2010/11 Outturn	Variance Over/(under)	Q3 forecast variance
Divisions	£'000	£'000	£'000	£'000
Regeneration & Neighbourhoods				
Housing Strategy & Options - Community Housing Services	1,767	745	(1,022)	(23)
Housing Strategy & Options - Strategy & Regeneration	1,729	1,619	(110)	16
Strategic Services				
Financing & Central Support Costs	113,231	111,828	(1,403)	(153)
Major Project Costs	6,000	5,425	(575)	1,077
Exceptional Items - House of Lords Reserve	0	(3,544)	(3,544)	
Exceptional Items - Heating Account	0	(1,462)	(1,462)	
Environment & Housing				
Housing Management	(95,632)	(97,924)	(2,292)	1,606
Home Ownership Unit	(28,590)	(25,909)	2,681	825
Other Services	1,495	1,437	(58)	(157)
HRA Carry Forward	0	1,329	1,329	(393)
HRA outturn total	0	(6,456)	(6,456)	2,798
Appropriations to/(from) HRA Reserves	0	6,456	6,456	(2,798)

Savings and efficiencies - 2010/11 budget - Outturn

46. The council targeted £20.8m combined savings and efficiencies for the general fund and housing revenue account in 2010/11. At the end of the year, £17.2m of these targeted savings have been achieved. The three main shortfalls are within the HRA, where £1.4m of the £7.3m savings have not been achieved; within Health and Community Services where £1.5m of the £3.3m savings have not achieved, and within Deputy Chief Executive, where £450k of savings have not been achieved.

Table 4: Performance against targeted savings and efficiencies

	Agreed by Council	Total Savings	Outturn Variance	Variance as at Q3
	£'000	£'000	£'000	£'000
Children's Services	(2,200)	(2,100)	100	0
Health and Community Services	(3,280)	(1,782)	1,498	1,581
Environment and Housing	(1,528)	(1,528)	0	0
Regeneration & Neighbourhoods	(907)	(807)	100	100
Major Projects	(220)	(220)	0	0
Finance and Resources	(893)	(902)	(9)	16
Deputy Chief Executive	(820)	(370)	450	0
Communities, Law and Governance	(583)	(583)	0	0
Corporate	(3,000)	(3,000)	0	0
Total General Fund	(13,431)	(11,292)	2,139	1,697
HRA	(7,328)	(5,893)	1,435	2,358
Total Savings 2010/11	(20,759)	(17,185)	3,574	4,055

47. In children's services, the after schools services savings which was to be achieved by reducing the subsidies to the service were delayed (variance £100k). This was mainly because of the need to make further savings in Children's Services. It was decided that all subsidies to after schools services should cease. This is to be achieved by a phased transfer of all the after school services to relevant schools with a one-off payment. Whilst this should eventually achieve over £1m, the need to consult and get agreement meant that the implementation of the revised proposals only started in September.
48. In health and community services, there is a shortfall forecast of £1.5m against the budgeted savings of £3.3m. This shortfall has decreased from the position reported at quarter 3 by £83k and is due to the following:
- Learning disabilities - £285k (£279k at Q3) of savings were not achieved due to CQC delays in de registration homecare and £25k was due to delays in the completion of a review of provision in the Southwark outreach service.
 - Older people (OP) and physical disabilities (PD) commissioning - £322k (£310k at Q3) of savings were not achieved in year due to issues with the retendering of the ICES service.
 - OP & PD - £340k (£500k at Q3) of savings were not achieved due to difficulties in the negotiations to date on service re-design and contract changes in relation to residential placements.
 - Welfare rights – £389k (£389k at Q3) of savings have been delayed awaiting finalisation of the corporate approach to welfare rights service.
 - Supporting people - £137k (£78 at Q3) of savings were not achieved due to delays in revising contracts due to difficulties in notifying providers.
49. However, compensating savings have been achieved in year through various senior management initiatives such as reablement, review of care packages and reducing residential placements. There were also savings from staffing restructure; more efficient use of grants and improved monitoring of direct payments and personal budgets resulting in recovery of surplus payments.

50. In regeneration and neighbourhoods, there remains a £100k variance due to underachievement of income from advertising.
51. In finance and resources the additional saving of £9k is due to rent income from 160 Tooley Street residential flats being higher than expected.
52. In Deputy Chief Executive's department only £50k of the expected £500k for CSC contract savings been achieved. This is because negotiations with Vangent over the fixed element of the CSC contract fee took place during the year, however, at the end of the year agreement had not been reached on a reduced fee for 2010/11. This is mitigated by a favourable variances elsewhere within client services.
53. There are a number of factors that contribute to the reported variance against the proposed savings target within the HRA.
 - The ISD savings target has not been fully met due to greater than anticipated spend. (Variance of £77k)
 - The increase to garage prices did not take place in 2010/11 (Variance £800k). It is planned to increase these in 2011/12.
 - Fewer garages were relet than anticipated, meaning planned additional income was not achieved. There was a small improvement late in the year. (Variance £450k)
 - Savings arising from the accommodation review/rechargeable office costs were not fully realised during 2010/11. Half of the £0.2m identified savings relating to the accommodation review were delivered in year one, with a further £50k from other facilities related activity, giving rise to a £50k shortfall against the target. It is anticipated that the full sum will be achievable from year two onwards. Additionally there is a shortfall of £25k against rechargeable office costs relating to telephones.
 - The commercial property portfolio is showing a shortfall against both the 2010/11 savings target (£33k) and the base rental income budget overall. The income target was predicated on prior-year activity which is being adversely affected by current economic conditions. This function is subject to review during 2011/12 with a view to improving the net revenue contribution to the HRA.
54. Substitute savings of £1.435m have been found from the HRA year end balance.

Collection fund

55. As a billing authority the council is required to maintain a collection fund account, which shows the transactions of the billing authority in relation to non-domestic rates and council tax, and demonstrates the way in which these have been distributed to preceptors and the general fund. The council must take into account the estimated surplus or deficit on the collection fund balance when setting the council tax for the following year, and this is usually based on the quarter three estimate. The estimated quarter three deficit of £87k was split between the council and the Greater London Authority (GLA), with the council's share being £65k and the GLA's being £22k.

56. The year-end balance on the collection fund is a deficit of £142k (£106k Southwark and £36k GLA), which overall is £55k worse than that expected at quarter three. This is the unaudited outturn balance based on March system reports. The change in position is mainly due to an increase in the discounts between reporting periods (£533k), which decreases income due, but there has been an improvement in the collection rates for previous years, leading to a reduction in the forecast for bad debt provision (£478k).

Reserves

57. The council retains a level of earmarked reserves and these are reported each year within the annual statement of accounts. These reserves are maintained to finance expenditure for items that are difficult to predict and that are not included in revenue budgets or within the capital programme. They relate especially to invest to save opportunities that form part of the modernisation agenda and expected to deliver future ongoing revenue savings. They are also held for investment in regeneration and development where spend may be subject to an unpredictable market and other influences.

Table 5: Summary of general fund reserve movements as at outturn

Reserves	£'000	£'000
General fund earmarked as 1 April 2010		(64,594)
<u>Release of reserves</u>		
Use of reserves to support services	11,273	
Use of reserves to fund capital expenditure	1,688	
General fund outturn taken from reserves	94	13,055
<u>Contribution to reserves</u>		
Budgeted contribution to reserves	(2,195)	
Contribution of performance reward grant –earmarked for capital	(4,335)	
Contribution of unused general fund contingency	(4,000)	(10,530)
General fund earmarked as 31 March 2011 before technical adjustments		(62,069)
Technical accounting contribution to reserves		(5,939)
General fund earmarked as 31 March 2011 after technical adjustments		(68,008)

58. Examples of reserves released include £3.4m of the £5.7m funding agreed for the transition (New Horizons) project to bring the revenues and benefits service back in house following the decision to end the contract with Liberata for this service.
59. Reserves are also released to meet the costs that arise during the year under exceptional circumstances, for example, additional costs in relation to the need to grit the highways as a result of the heavy snowfall experienced in 2010/11.

60. Excluding the technical and budgeted contribution to reserves, the net release of reserves in support of general fund services was £11.3m, as shown in Table 5 above. The movements in general fund earmarked reserves are reflected in the budgets in Table 1 above and were subject to existing approval arrangements.

Table 6 – Analysis of movements in reserves

Reserve analysis	£'000
Regeneration projects	(1,933)
Office accommodation/localities programme	(2,771)
Reorganisation programme / service redesign redundancy costs	(1,190)
Service	(5,379)
Total	(11,273)

61. Reserves balances are also held to fund future capital projects. In 2010, £1.7m was drawn down to fund
62. As stated in paragraph 36 and 37, the budget contained a contingency budget of £4m which was unused and therefore has been put into reserves to help fund commitments in future years that arise from the Council's modernisation agenda.
63. The performance reward grant has been taken to reserves to fund future capital commitments, as agreed by Council Assembly on 6 July 2011. This grant had been received as a result of the council meeting a number of government targets. This grant has been withdrawn by the government from 2011/12 forward.
64. The small unfavourable general fund outturn variance has been funded from the financial risk reserve.
65. The technical movement on reserves in table 5 relates to a significant contribution to reserves for 160 Tooley Street of £2.3m. This movement is for technical accounting reasons relating to the rental charge for the first five years. This re-profiles the rent to an average rent over the five years taking into account the initial 18 month rent free period. There is also a significant contribution to reserves of £3.6m in respect of the smoothing of the waste PFI unitary charge. This contribution to reserves will cover the longer term (25 year) life cycle cost of the project.
66. The table below illustrates how the reserve balance is allocated across the main earmarked reserve headings

Table 7 – Revenue and capital earmarked reserves

Reserve - revenue	Balance b/fwd	In year movement	Balance c/fwd
	£000	£000	£000
Modernisation, Service & Operational Improvement Reserve	(1,730)	(5,672)	(7,402)
Financial Risk Reserve	(7,935)	(171)	(8,106)
Funds set aside to finance future projects	(20,461)	1,652	(18,809)
Departmental balances	(2,764)	(601)	(3,365)
Funds set aside to meet future risks	(14,615)	1,564	(13,051)
Sub total	(47,505)	(3,228)	(50,733)
Reserve - capital	Balance b/fwd	In year movement	Balance c/fwd
	£000	£000	£000
Modernisation, Service & Operational Improvement Reserve	(1,924)	1,924	0
Regeneration & Development Reserve	(9,640)	2,613	(7,027)
Capital Contingency Reserve	(2,703)	472	(2,231)
Funds set aside to finance future projects	(2,244)	(860)	(3,104)
Departmental balances	(578)	(4,335)	(4,913)
Sub total	(17,089)	(186)	(17,275)
Total	(64,594)	(3,414)	(68,008)

Schools funding reserves movements

67. The main funding for schools comes from the dedicated schools grant (DSG) which is largely passed directly to schools in the form of a school budget share each year, with the remainder of the grant held centrally.
68. Table 8 below shows a £2.361m increase in the DSG reserve which represents the amount of grant held centrally that was not used in 2010/11. The movement in schools' balances of £640k represents an increase in the balance held by schools in their school bank accounts.

Table 8: Summary of schools funding reserve movements

Reserve	2010/11 opening balance	Change in reserves	Release of reserve for capital	2010/11 closing balance	2010/11 forecast closing balance as at Q3
	£'000	£'000	£'000	£'000	£'000
DSG reserve	(4,010)	(2,190)	1,381	(4,819)	(4,010)
Schools balances	(10,114)	(640)		(10,754)	(10,114)

HRA Reserves movements

69. Table 9 below shows a £6.5m increase in the HRA reserve which represents the movement to reserves of the favourable variance achieved within the HRA for 2010/11.

Table 9: Summary of reserve movements for HRA as at outturn

	2010/11 opening balance	Change in reserves	Release of reserve for capital	2010/11 closing balance	2010/11 forecast closing balance as at Q3
Reserve	£'000	£'000	£'000	£'000	£'000
HRA earmarked	(14,124)	(6,456)	0	(20,580)	(11,326)
Total	(14,124)	(6,456)	0	(20,580)	(11,326)

Treasury management

70. At 31 March 2011, the council's debt and cash balances were £762m and £237m respectively. The debt funds past capital expenditure not otherwise met from capital receipts, grants or revenue, and the cash is invested until it is used in spending.
71. Three investment firms (AllianceBernstein, Aberdeen Fund Management and Invesco Asset Management) managed the council's exposure to certificates of deposits (liquid bank deposits) and bonds and an in-house operation focussed on meeting day to day cash volatility using money market funds, call accounts and short term deposits.
72. The sum invested with each counterparty at 31 March 2011 is set out in Table 9 below. The return for the year is 1.08% reflecting the very low level that money market rates have been at since last year.

Table 10: Investment counterparty exposure

EXPOSURE - MAR 2011 COUNTERPARTY AND RATINGS						
Counterparty	Exposure £m			Fitch Ratings		
	Total	Long	Short	Support	Sovereign	Sovereign Rating
BARCLAYS BK	13.6	AA-	F1+	1	UK	AAA
BK NATIONAL DE PARIBAS	12.2	AA-	F1+	1	FRANCE	AAA
CREDIT AGRIC CIB	10.9	AA-	F1+	1	FRANCE	AAA
CREDIT INDST COMRCL	5.5	AA-	F1+	1	FRANCE	AAA
DANSKE	0.5	A+	F1	1	DENMARK	AAA
DEUTSCHE BK	10.8	AA-	F1+	1	GERMANY	AAA
EUROPEAN INVST BK	10.6	AAA	F1+		SUPRANATIONAL	AAA
GLOBAL TREAS FNDS PLC MMF	21.4	-	AAA		GLOBAL	
HSBC	0.5	AA	F1+	1	UK	AAA
ING BK	8.9	A+	F1+	1	NETHERLANDS	AAA
INTL BK RECON & DEV	4.7	AAA	F1+		SUPRANATIONAL	AAA
LANDESBK BADEN WUERTBG	3.2	A+	F1+	1	GERMANY	AAA
LLOYDS/BK SCOTLAND	25.6	AA-	F1+	1	UK	AAA
NATIONWIDE B/SOC	0.5	AA-	F1+	1	UK	AAA
NORDEA BK	4.9	AA-	F1+	1	FINLAND	AAA
RABOBANK	0.5	AA+	F1+	1	NETHERLANDS	AAA
RBS/NATWEST	25	AA-	F1+	1	UK	AAA
SANTANDER UK	21.5	AA-	F1+	1	UK	AAA
SOCIETE GENERALE	7	A+	F1+	1	FRANCE	AAA
SVENSKA HANDELSBKN	4.5	AA-	F1+	1	SWEDEN	AAA
UBS	2.6	A+	F1+	1	SWITZERLAND	AAA
UK TREASURY	42.2	AAA	F1+		UK	AAA
Grand Total	237					

73. As at quarter 3, no new borrowing was taken in the last quarter and debt to fund past capital spending remains at £762m, the same level it was at throughout 2010/11 and 2009/10. All debts are at fixed rates from the Public Works Loans Board (a division of HM Treasury and a competitive source of funds). No debt matured in 2010/11 so no replacement finance was needed.

74. The average rate of interest paid on debt was 6.94% for the year.

Community impact statement

75. This report monitors expenditure on council services, compared to the planned budget agreed in February 2010. Although this outturn report in itself has been judged to have no or a very small impact on local people and communities, the expenditure it is reporting was designed to have an impact on local people and communities, which will have been 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.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
2010/11 Revenue monitoring / Outturn	160 Tooley Street London SE1 2QH	Vernon Smith 020 7525 7355

APPENDICES

No.	Title
Appendix A	Budget adjustments to be approved

AUDIT TRAIL

Cabinet member	Councillor Richard Livingstone, Finance, Resources and Community Safety	
Lead officer	Duncan Whitfield, Finance Director	
Report author	Cathy Doran, Finance and resources	
Version	Final	
Dated	7 July 2011	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Communities, Law & Governance	No	No
Finance Director	Yes	Yes
Date final report sent to constitutional team		7 July 2011