Item No. 21.	Classification: Open	Date: 16 July 2013	Meeting Name: Cabinet
Report title:		Revenue Outturn Report 2012/13, 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 outturn for its 2012/13 revenue budgets and asks Cabinet to agree the budget movements set out in Appendix A.

On the general fund, overall departments met the savings required for the year. There have been particular pressures on Children's Services but these have been balanced by significant further savings achieved by other departments.

For the Housing Revenue Account, there is a favourable variance, mainly as a result of systematic improvements in contract management and cost control which continues to deliver greater value overall. This is in stark contrast to the deficit run on the HRA a few years ago. The report also sets out future pressures on this budget that are likely to arise through government's welfare reform and the Council's re-housing programme.

The report also identifies movements in the Council's reserves.

The Collection Fund delivered a surplus in the year, partly as a result of the work carried out to target single person discount fraud for council tax in the autumn. This is welcome news given the particular challenges facing council tax collection in 2013/14 arising from government's abolition of Council Tax Benefit.

On the Council's Treasury Management activity, the most significant transaction has been the purchase of 160 Tooley Street. The impact of this purchase is set out in the report and it is noted that savings are already being reported as a result of the acquisition.

RECOMMENDATIONS

1. That the cabinet:

    - notes the general fund outturn for 2012/13 and movement on reserves,
    - notes housing revenue account's (HRA) outturn for 2012/13 and movement on reserves,
    - approves the general fund budget movements as set out in Appendix A,
    - notes the schools budget outturn, which has been taken to the dedicated schools

grant reserve,
- notes the collection fund's year-end surplus,
- notes the treasury management activity for the year

BACKGROUND INFORMATION

2. 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 2012/13. 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.

3. The council agreed a balanced general fund budget of £308.2m on 29 February 2012 based on a nil council tax increase. This budget was set in the context of further significant overall cuts in government funding and the identification of some 25% of savings proposals over the three years from 2011/12 to 2013/14. These savings have been necessary to mitigate against the reduction in resources received from the government and to continue to fund the council's commitments in terms of services provided.

4. In setting the budget the council continued to strive for a Fairer Future for All in Southwark despite the challenges of the national financial climate. Key elements of the 2012/13 budget included:
   - A further year's freeze in Council Tax
   - The introduction of clear plans to ensure that the London Living Wage benefits not only directly employed staff but also those who work for the council through employment agencies or through contractors
   - The establishment of a new Cleaner Greener Safer revenue fund for community councils to determine, devolving more decisions to a more local level
   - The establishment of a community restoration fund to respond to the challenge of the August 2011 disorder events
   - The use of £4.4m from the council's reserves to help with the pressures on the budget
   - Further rollout of the Free Healthy School Meals programme for primary schools to include years 2, 3 and 4 from September 2012, in addition to the coverage of Reception and Year 1 classes
   - Further reduction in Meals on Wheels prices
   - Continuing the Voluntary Sector Transition Fund scheme established in 2011.

5. The council also agreed budget reductions of £28m and commitments of £10.2m within general fund for 2012/13. Performance on achieving these savings was closely monitored and details are provided in paragraphs 62 to 68 below.

6. The Council Plan placed local needs and accountability as the drivers of performance improvement. In an environment of significantly reduced funding, the council has to change in fundamental ways. A number of transformation projects are underway, and work continues to identify further ways of transforming the delivery of services. These transformation or 'invest to save' projects will continue to be funded from any favourable budget variances identified or previously created

earmarked reserves.

7. This report presents the outturn position on the net revenue budget. The draft Statement of Accounts was signed by the strategic director of finance and corporate services on 29 June 2013. These accounts reflect this outturn position including any technical accounting adjustments.

KEY ISSUES FOR CONSIDERATION

General fund overall position

8. In February 2012, Council Assembly set a net budget for the year 2012/13 of £308.2m. Table 1 below provides an outturn position of £307.7m net use of resources against budget.

Table 1: General fund outturn position for 2012/13 at year end

General fund	Original budget £'000	Budget movements £'000	Revised budget £'000	Spend in year £'000	Reserve movement £'000	Total use of resources £'000	Variance £'000
Children's services	85,766	175	85,941	84,700	1,604	86,304	363
Adult social care	107,718	(42)	107,676	99,434	7,594	107,028	(648)
Environment and leisure	70,412	(414)	69,998	72,607	(2,626)	69,981	(17)
Housing and community services	44,065	(4,381)	39,684	40,066	(443)	39,623	(61)
Chief executive's department	19,007	2,152	21,159	20,125	991	21,116	(43)
Finance and corporate services	41,483	935	42,418	35,743	6,562	42,305	(113)
Customer services centre	(3,000)	0	(3,000)	(3,000)	0	(3,000)	0
Support cost recharges	(59,308)	1,575	(57,733)	(57,733)	0	(57,733)	0
Total general fund services	**306,143**	**0**	**306,143**	**291,942**	**13,682**	**305,624**	**(519)**
Contingency	**5,500**	0	**5,500**	**0**	5,500	5,500	0
Planned contribution to Aylesbury reserve	1,000	0	1,000	0	1,000	1,000	0
Contribution from balances to underwrite base budget	**(4,446)**	0	(4,446)	**0**	(4,446)	(4,446)	0
General fund total	**308,197**	**0**	**308,197**	**291,942**	**15,736**	**307,678**	**(519)**

9. 2012/13 was a very challenging year for all services. The council faced unprecedented cuts in line with the government's settlement announced 31 January 2012. Many actions were taken at an early stage to deliver the savings required, especially in the context of a three year budget and on-going known budget challenges. Overall, strategic directors were able to deliver within budget the planned essential and priority services, despite the difficult financial position.

10. The 2012/13 budget included a contingency budget of £5.5m in recognition of the uncertainties inherent in a net budget of £308m, representing around 1.8%.

11. Through a combination of one off favourable variances within departments and the use of reserves, it has not been necessary for the council to call upon this contingency. It will therefore be used as the first call for supporting the 2013/14 revenue budget which, as agreed by Council Assembly in February 2013, has a planned £6.2m contribution from reserves.

Key general fund variances

Children's and Adults' Services

12. Children's and adults' services are reporting an overall favourable budget variance of £300k on a total budget of £177.8m in the context of delivering a total savings target of £16.5m.

13. The overall variance consists of a £2.54m adverse variance in children's social care which has been offset by favourable variances across the remaining services, adults social care (£650k favourable), education (£1.12m favourable) and strategy and commissioning (£980k favourable).

14. As previously reported at quarter three, management action continues to mitigate the children's social care cost pressures resulting from an increasing numbers of children placed in independent fostering agencies (IFA) and financial aid to an increasing number of families that have "no recourse to public funds". These one-off favourable variances across education and strategy and commissioning are attributable to vacant posts and management action taken to accelerate the 2013/14 savings and to hold budgets to support the specialist services pressures. For 2013/14 it is not anticipated that these favourable variances will reoccur as the budget has now been reduced for these savings.

15. The overall favourable variance for Adults' Social Care resulted from pressures in the Older People and Mental Health Care budgets of £2.5m (arising mainly from more specialised care needs) being mitigated by various favourable variances including: improved procurement of physical disabilities home care spot placements; as well as reduced costs of learning disability residential care and supported living as more people are supported in the community.

Environment and leisure

16. The department is reporting an overall favourable variance of £17k, compared to a £305k favourable variance position reported at the end of the third quarter. The reduction was mainly due to funding redundancy costs of around £114k, thereby reducing the call on reserves. Where community safety projects have external funding which runs over two financial years, the balance has been taken to reserves for use in later years.

17. The above variance is after being able to return a £500k budget allocated to fund pressures in the parking income, which had been identified in 2012/13 and subject

to six months review. Reduction in compliance has led to the number of penalty charges notices (PCNs) increasing by 3%, reversing the trend of recent years.

18. The percentage of PCNs recovered also increased by 2%. Allied with an increase in revenue in paid for parking resulting from wider use of cashless payment methods, this has led to a greater than planned surplus on the parking revenue account. As a result, £900k has been earmarked for future highway related infrastructure investments.

19. Management action continued throughout the year to consolidate the improvement in the overall departmental variance.

20. During 2012/13, the department implemented its challenging savings, within the agreed timescales, while maintaining essential front line services. For example, the libraries review enabled the department to deliver £274k with no library closures. Good partnership working with major waste and leisure contractors has also delivered savings with no reduction in service. The major procurements of the highways and parking contracts put the department on a sound footing for continued savings in these areas.

Housing and community services (H&CS)

21. Overall the housing and community services department achieved a favourable variance of £61k, including one-off redundancy costs and after corporate reserve movements. There have been a number of changes over the last quarter that have impacted on earlier forecasts.

22. Internal restructuring during 2012/13 saw the breakup of the community housing services division with functions, both general fund and housing revenue account (HRA), subsumed within the specialist housing services and customer experience divisions within H&CS, and other functions transferring to the chief executives and environment and leisure departments as part of the strategic realignment of services across the council.

23. Customer experience division comprises the customer service centre (CSC), customer resolution, blue badges and concessionary fares and homelessness and housing options and SMART. There a number of generally positive variances across the division, which mitigate the position on the CSC.

24. In relation to the customer service centre, the decision to terminate the Vangent contract and bring the service in-house from June 2013 has presented the opportunity to reconfigure and improve customer access and service delivery and drive out savings from 2013/14 onwards by moving towards more cost effective transaction routes and customer access channels.

25. Transition costs relating to the development and implementation of the new customer relationship management (CRM) system and infrastructure upgrades were accounted for separately from the routine contract operating costs, ‘business as usual’, and dealt with through the release of corporate reserves earmarked for this purpose. On the ‘business as usual’ front, the outturn is as expected higher than budget reflecting the contractual settlement agreed as part of the termination

agreement. Notwithstanding the additional contract commitment incurred, there are a range of savings on the client side (predominantly staffing) that mitigate the position, such that the final outturn is lower than reported previously.

26. The registrars and coroners services also transferred to H&CS under the customer experience division. Historic budget issues in relation to the income recoverable from the other consortium members were addressed on a one-off basis through the application of corporate reserves (£166k). However, there is an on-going commitment in 2013/14 that will need to be adddressed in-year and in the longer-term as part of budget setting for 2014/15.

27. Following the breakup of the communities, law & governance department (CLG), community engagement transferred to H&CS mid-year and merged with the resident involvement function in a separate division. The reconfiguration of community councils during 2011/12 had created some residual budget pressure in 2012/13 against which corporate reserves were earmarked. However, spending has been largely contained and the pressure minimised without the need to drawdown from reserves. The favourable variance of £39k achieved against the community council grants has been carried forward into 2013/14.

28. Whilst Southwark ranks highly in terms of homeless prevention, temporary accommodation has exceeded original forecasts driven by homeless demand and the restricted availability of properties in the private rented sector, which is being exacerbated by the impending welfare reforms. This has to some extent been mitigated with the development of the hostels programme and use of estate void properties within the HRA, such that the outturn position for the general fund was better than it would otherwise have been.

29. Central support recharges and cost reallocations between the HRA and general fund are on budget. The activity also contains a number of rent accounting adjustments relating to the current and prior-years which have been taken to the centre in order to avoid distorting divisional analysis. There are also a range of positive movements within the maintenance and compliance and operations divisions comprising property adaptations and stairlift maintenance and healthy homes, which contribute to the welfare and safety of residents across all tenure types. Travellers sites benefitted from a windfall following the successful resolution of a long-standing dispute with Thames Water in relation to water charges, which together with lower operational and site running costs and higher rent debit, has contributed to a positive outturn position.

Finance and corporate services including corporate and democratic core

30. Finance and Corporate Services is reporting a favourable variance of £113k against a net budget of £35.8m.

31. In 2012/13, the department continued with its restructure with further reviews of –
    - provision of IT services
    - re-organisation of staffing structures across the finance and legal services divisions
    - major corporate facilities management contracts.

32. Savings of £3.1m were allocated this year and were either met directly or substitute options were found to ensure that the overall target was achieved.

33. The purchase of the council's head offices at 160 Tooley Street delivered additional savings in 2012/13 of £750k. The cabinet agreed that these 2012/13 savings would be set aside are to be set aside to fund future community safety schemes in the borough.

34. In achieving the year end position, reserves of £3.2m were released. A significant amount was related to one-off costs associated with re-organisation, such as redundancy and early retirement costs amounting to £900k. £1.4m was funded from the modernisation reserve in relation to the relocation of the data centre from Southwark Town Hall.

Chief executive's department

35. As part of council wide restructure, the merger of the old regeneration & neighbourhoods and deputy chief executive's departments into a new chief executive's department was completed in 2012/13. Further restructuring saw the inward transfer of additional units from the old communities, law and governance department and from housing and community services. The new units include the scrutiny, constitutional support and South East London Housing Partnership (SELHP) teams which have now been incorporated into the corporate strategy division.

36. For 2012/13, total available budget for the department was £20.1m compared to net expenditure in year of £20.06m, giving a favourable outturn variance of £43k. The outturn position takes into account the 2012/13 base budget departmental savings of £1.3m and additional management in-year savings of £410k which have all been fully achieved.

37. Within the department, the favourable variance is mainly attributable to vacancies which remain unfilled across the various units and exceeding of income targets in development control.

38. The net variance of £43k was also after significant reserve movements mainly related to organisation and development for childrens and adults services, regeneration projects and modernisation.

39. Other reserves set up are in connection with Elephant and Castle and Aylesbury projects, some of whose activities have undergone re-profiling and therefore require some of the budgets (£656k) to be side aside in the regeneration reserves for use in 2013/14 and beyond.

40. There was also a movement of £415k into the modernisation reserves to ensure continued funding of modernisation initiatives in the newly created chief executive's department.

Support cost reallocations

41. Support cost reallocations are the costs of the central services, like finance and corporate services, chief executive's department and the customer services centre which are recharged to service departments. The process is governed by service reporting 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 2012/13 £58.2m 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

42. The 2012/13 general fund budget included a provision of £5.5m contingency. This was to enable the council to have sufficient flexibility to respond to the impact of economic uncertainty, service pressures, and any unforeseen events.

43. As described earlier, the council was able to use reserves to manage the various service pressures that arose during 2012/13. The £5.5m contingency has therefore been transferred to the modernisation reserve, where it will be held to fund the planned draw down of £6.2m from reserves in 2013/14 necessary to balance the budget.

Schools budget

44. The DSG is reporting an outturn of £222.7m, which is a favourable variance of £1.7m on a total DSG budget of £224.418m (0.8% variance). The major areas of significant variance are a £800k favourable variance across early years including the entitlement for three year olds and £1.0m unspent school contingencies (which include, for example, early years and statemented special educational needs in year funding adjustments). The DSG is ring-fenced and this favourable variance will be considered by the schools forum at the July 2013 meeting. During 2012/13, the schools forum agreed to contribute £2.0m of DSG reserves to support future revenue costs associated with the primary capital expansion programme.

45. The DSG is a ring-fenced grant, and therefore, unspent grant is held within a specific reserve. The schools forum is consulted on the use of this reserve.

Schools funding reserves movements

46. 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.

47. Table 2 below shows a £30k decrease in the DSG reserve overall which takes into account the use of this reserve for both capital and revenue purposes together with the overall revenue favourable variance achieved in 2012/13.

48. School revenue balances are £16.245m, adjusted for the impact of converting academies this equates to £3.7m increase. This increase is likely attributable to

uncertainties in the school funding environment.

Table 2: Summary of schools funding reserve movements

Reserve	2012/13 opening balance £'000	Change in reserves £'000	Release of reserve for capital £'000	2012/13 closing balance £'000
DSG reserve	(7,373)	(1,203)	1,233	(7,343)
Schools balances	(13,734)	(2,511)		(16,245)
Total	**(21,107)**	**(3,714)**	**1,233**	**(23,588)**

Housing revenue account (HRA)

49. The table below sets out the final outturn against budget. There have been a number of movements over the last quarter that have impacted earlier forecasts as detailed below.

Table 3: Housing revenue account

HRA Outturn Monitor 2012/13	2012/13 Budget £000	2012/13 Outturn £000	2012/13 Outturn Variance £000
Operations	(167,578)	(168,121)	(543)
Maintenance & Compliance	44,040	48,810	4,770
Major Works	849	864	15
Specialist Housing Services	(32,971)	(34,017)	(1,046)
Strategic & Corporate Services	121,921	120,421	(1,500)
Customer Experience	1,924	1,900	(24)
Community Engagement	1,864	1,350	(514)
Chief Executives	1,551	1,355	(196)
Heating Account	12,198	10,444	(1,754)
Direct Revenue Funding of Capital	12,727	12,727	0
Appropriations to /(from) reserves	3,475	4,267	792
Total HRA	**0**	**0**	**0**

50. The HRA shows a positive variance against budget of £4.3m for 2012/13 which is lower than previously reported, but nonetheless contributes to a more sustainable reserves position moving forward. It contains a number of expenditure items that are of a one-off or exceptional nature together with planned reserve movements. Previous monitoring reports have referred to underlying spending pressure and the forecasts have been necessarily cautious in this regard. Whilst the need to spend on landlord responsibilities for the maintenance and improvement of the housing stock remains high, it has been possible to manage these cost pressures and in certain areas, such as repairs, increase the level of investment within the overall resources available to the HRA.

51. The maintenance & compliance (M&C) division comprises reactive repairs and planned maintenance and mechanical and electrical engineering and heating plant repairs. Improved contract management continues to deliver cost savings, but the demand-led nature of the service means budgets are under constant pressure and

additional resources (£3.6m) have been committed to the repairs service through the redirection of funds and release of provisions/ reserve movements to meet this demand during 2012/13. This includes £1.6m for asbestos containment/ removal and £800k for works (in excess of £10k) of a capital nature that currently fall outside the Warm, Dry Safe programme. It is proposed to address this funding anomaly through the HIP during 2013/14. A further £1.2m has also been allocated on a one-off basis in the last quarter for a specific programme of kitchen replacements and safety lighting.

52. The contract termination of Morrison's and interim contract arrangements and retendering costs have has also impacted upon the final outturn position, along with a range of other non-repairs movements across the division comprising primarily compensation and legal (predominantly disrepair), tenants decoration allowances and running and employee costs, largely agency related in lieu of permanent recruitment and additional interim provision to address capacity issues, given the scale of the works programme undertaken.

53. Southwark building services (SBS) – operational and strategic management of the service sits within the M&C division. Following restructuring the workforce has been reconfigured to deliver measurable improvements in efficiency, quality and productivity at reduced cost. Excluding one-off costs of redundancies and restructuring, which have been met centrally, the quasi trading account shows an operating surplus of £800k, which is returned to the HRA.

54. Operations division (formerly area management) comprises front-line estate management and income collection/ arrears management. The organisational changes implemented during 2011/12 have been subjected to post implementation review and adjusted where necessary to maximise operational efficiency. Together with efficiencies achieved through the rationalisation of office accommodation, the budget has delivered savings greater than target (£1m), which will flow through into subsequent savings rounds.

55. In terms of HRA rental income, the gross rent debit raised was on budget, albeit the void rate was fractionally higher giving rise to a variance of £500k. Collection performance overall (including HRA voids used for temporary accommodation and hostels) stood at 98.93% which represents solid performance given the current economic conditions. Overall, net arrears increased by £700k year on year and bad debt provisions were reviewed in light of the upward arrears movement. The impending introduction of welfare reforms and direct payment will inevitably impact on the collection rate, but additional budget provision has been made to meet potential collection losses moving forward.

56. The specialist housing services division comprises a diverse range of functions including home ownership, tenant management organisations (TMO), the commercial and garage portfolios and sheltered housing and temporary accommodation. The use of hostels and estate voids have been maximised during the year resulting in a net gain against budget of £1m, through the additional rent debit generated. This is an increasing important means of mitigating the cost of homelessness in the general fund going forward. Positive movements in TMO budgets and other smaller scale activities offset the additional 'invest to save' expenditure committed towards the garage refurbishment programme (£0.7m).

Overall, the activity is £1m better than budget.

57. Homeowner service charges are recoverable under the terms of the lease and are based on actual costs incurred. Billing of £17.7m gross (£15.8m net) was raised in 2012/13 in line with budget expectations including freeholders and prior-year account actualisations. Capital works billed in March 2013 totalled £10.6m (spanning 2012/13–2014/15). However, in order to comply with statutory requirements, it is necessary to bill in advance of the financial year and as such the income cannot be recognised in the 2012/13 accounts as no liability exists at that point. Similarly, income raised in previous years that had been deferred is now available to be recognised in the accounts totals £6.5m, which is in line with the budget. Collection performance has exceeded target with a combined £25.8m collected against a target of £24m, with arrears falling to £8.2m.

58. The strategic services activity accounts for over 50% of the HRA gross budget and comprises departmental and corporate overheads, debt financing, depreciation/impairment charges, revenue support for the housing investment programme (HIP) and the revenue costs associated with major regeneration projects. The introduction of HRA self-financing in April 2012 required local authorities to move to a component based approach for depreciation, or use the default position as defined in the debt settlement. There is also now a requirement to recognise non-dwelling impairment as a direct charge to the HRA. Revaluation and re-categorisation of the asset base has given rise to a higher charge than earlier forecast, offset by lower premium and interest charges on housing debt as a result of the debt write-down. Other movements in relation to major projects, debt write-off and other one-off/exceptional items that cannot be contained within mainstream operational budgets contribute to the cumulative variance.

59. The heating account is a notional ring-fenced account within the HRA, comprising predominantly the energy costs (gas, electricity and oil) for the provision of district heating and hot water to council tenants and leaseholders. It is maintained on a trading account basis with any surplus/ deficit being carried forward. Balances can be used to mitigate future charge increases or to fund energy efficiency measures to communal heating systems that in turn generate additional cost savings. Contract procurement savings and lower consumption gives rise to a net operating surplus which has been taken to the heating account reserve. Charges are reviewed annually as part of the rent and budget setting process in February each year.

60. Consolidated budget movements across the other divisions: major works, regeneration (chief executives) and community engagement show a net £700k below budget. This comprises favourable variances on employee budgets (£400k), tenants halls running costs (£200k) and the tenants fund (£100k), the balance of which is carried forward to 2013/14.

HRA reserves movement

61. The ring-fenced nature of the HRA requires that deficits/surpluses are carried forward between years. HRA reserves have been below the optimum level commensurate with the size of Southwark's combined revenue and capital programmes and represent a financial risk. In line with the medium term resources strategy (MTRS), the council has been working towards increasing reserves (the

base budget is predicated on making a minimum contribution of £2m per annum), to a more prudent and sustainable level in order to mitigate future risks, fulfil future commitments already made, and enable the transformation and modernisation of services going forward. As at 31 March 2013 the HRA reserves stand at £31.755m (an increase of £4.267m), of which around 80% is committed/earmarked, including provision towards the repayment of housing debt.

Implementation of the 2012/13 budget decisions including agreed budget reductions, savings and efficiencies

62. The council identified £35m of budget reductions, including savings and efficiencies for the general fund and housing revenue accounts as part of the 2012/13 budgets.

Table 4: Statement of achievement of savings agreed for 2012/13

	Budgeted 2012/13 savings £'000	**Forecast full year 2012/13 savings** £'000	**Compensating / other savings achieved in 2012/13** £'000	**Variance** £'000
Children's Services	(6,174)	(6,174)	0	0
Adult social care	(10,295)	(9,743)	(552)	0
Environment and Leisure	(4,990)	(4,990)	0	0
Housing and Community Services	(594)	(594)	0	0
Finance and corporate services	(3,077)	(3,077)	(750)	(750)
Chief executive	(1,277)	(1,277)	0	0
Corporate	(2,000)	(500)	0	1,500
Total General Fund	**(28,407)**	**(26,355)**	**(1,302)**	**750**
HRA	(6,397)	(6,397)	0	0
Total Savings	**(34,804)**	**(32,752)**	**(1,302)**	**750**

Note: details of the Council's savings plans can be found in the budget papers agreed by Council on 29 February 2012

63. As shown in the table above, the majority of the savings agreed by the council in setting the 2012/13 budget were achieved.

64. Challenging savings targets were set for both children's services, £6.174m and adults' social care, £10.3m.

65. In adults' services there was a shortfall in achieving the mental health redesign savings of £552k. However this was compensated by overachieved savings through residential care service redesign in the learning disability service. There were also further savings delivered through various management initiatives around reablement, smarter procurement as well as efficient deployment of NHS funding for winter pressure and reablement.

66. A key event that occurred during the year was that the council was able to purchase its main head office at 160 Tooley Street. This transaction generated an additional saving of £750k, which as confirmed earlier in this report has been set aside to fund future community safety schemes as directed by cabinet.

67. The £1.5m corporate savings related to the customer services savings built into the Vangent contract, that could not be achieved as planned following the mutual agreement to terminate the contract in June 2013 and bring the service back in house.

68. All other departments were able to report full achievement of planned savings.

Collection fund

69. 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 surplus at quarter three was £1.203m, split between the council and the Greater London Authority (GLA), with the council's share being £900k and the GLA's being £303k.

70. The final year-end balance on the collection fund was a surplus of £1.775m (£1.330m Southwark and £445k GLA), which overall is an £572k improvement to that expected at quarter three. This is mainly due to increased billing amount by £88k and an improvement in the historical debt collected, which reduced the overall level of bad debt provision by £484k. This is the unaudited outturn balance based on March 2013 system reports.

Reserves

71. The council retains a level of earmarked reserves and these are reported each year within the annual statement of accounts. These reserves are made in order to mitigate financial risk and fund future committed revenue and capital projects. These meet departmental and corporate priorities as well as regeneration and development projects. Some relate to invest to save opportunities that form part of the modernisation agenda and are expected to deliver future ongoing revenue savings.

72. Excluding the technical, schools balances and budgeted contribution to reserves, there was a net contribution to reserves of £11m support general fund services in future years. The contribution to reserves for community projects includes funding for business support and welfare reform. The movements in general fund earmarked reserves are reflected in Appendix B and subject to existing approval arrangements.

73. Reserves balances are also held to fund future capital projects. In 2012/13, £3m was drawn down to fund capital, this included expenditure related to schools, regeneration and customer services development.

74. As stated in paragraphs 10 and 11, the 2012/13 budget contained a contingency fund of £5.5m, which did not need to be used and therefore has been put into the financial risk reserve to help fund the 2013/14 £6.2m planned release of reserve necessary to balance the 2013/14 budget.

75. The favourable general fund outturn variance on services has also been set aside in the financial risk reserve.

76. There was a technical movement in reserves relating to a significant contribution to reserves for 160 Tooley Street of £3m. This movement is for accounting reasons and relates to the need to re-profile the rent to an average rent over a set period of years taking into account an initial rent free period. This adjustment for Tooley Street will no longer be required in future years following the council's success in purchasing the freehold in December 2012.

77. There has also been a drawdown from reserves for technical accounting purposes related to rental smoothing adjustments for Queens Road and more significantly in relation to smoothing of the waste PFI unitary charge over the 25 year life cycle of the project.

78. In line with the medium term resources strategy (MTRS), the council continues to maintain appropriate earmarked reserves, in order to mitigate future risks, fulfil future commitments already made and provide resources to enable services to transform over time.

Table 5: Summary of earmarked reserves

Summary of earmarked reserves	Balance as at 31 March 2012 £'000	Net movement in reserves £'000	Balance as at 31 March 2013 £'000
Corporate projects and priorities	9582	1447	11029
Service reviews and improvements	13570	5687	19257
Capital programme and other capital investment	26168	6081	32249
Strategic financing, technical liabilities and future financial risks	35132	1172	36304
Total	**84,452**	**14,387**	**98,839**

79. Corporate projects and priorities reserves are held to fund those future activities that will enable the council to function more efficiently and effectively. They include resources held to meet the cost of ongoing re-organisation and restructuring that the council must undertake to modernise and improve service levels and operational efficiency of Southwark's activities.

80. Service reviews and improvements represent resources held that can be directly linked to services provided.

81. Modernisation reserves are held to help the council fulfil its longer term plans in relation to its modernisation, development and improvement agenda.

82. Capital programme and other capital investment reserves are held to fund one-off expenditure that may be incurred over more than one year and by its nature is not appropriate to be included within annual revenue budgets, to facilitate the significant regeneration and development taking place in the borough. Projects include the Elephant & Castle, Canada Water, Southwark Schools for the Future, land acquisitions and other significant one-off costs associated with these projects.

83. Strategic financing, technical liabilities and future financial risks reserves are in the main held to mitigate against future financial risks that may arise. For example, taxation risks, legislative and funding changes including actions involving the Greater London Authority and other government bodies, risks as a result of unavoidable changes in accounting practice, and circumstances in so much as they represent uninsured risks. They also include balances that are held for technical accounting reasons as described above.

Treasury management

84. Treasury management covers both cash holdings and debt. The cash is invested and applied to working capital and spending commitments as needed and in December sums were also used to pay for the acquisition of 160 Tooley Street, further details of which were given at cabinet on 12 December 2012. The average balance over the course of 2012/13 was £294m and at 31 March 2013 stood at £177m.

85. Investments are managed by an in-house operation and two investment firms Aberdeen Asset Managers and AllianceBernstein, with capital preservations a priority. The balance held with each institution together with ratings as at 31 March 2013 is set out in the table below and future sums may be drawn down from the managers if needed for spending.

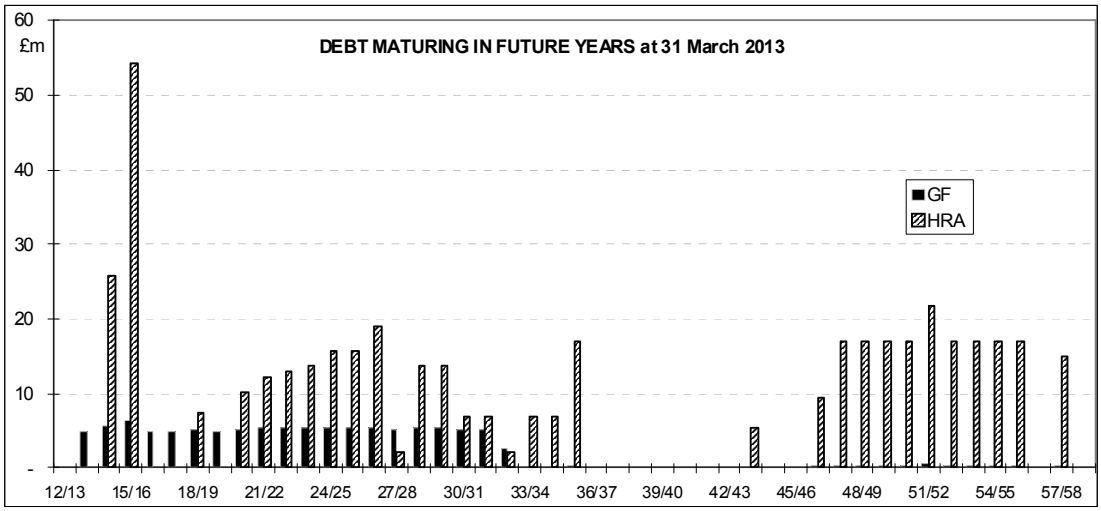
Table 6: Exposure with counterparties

EXPOSURE - MARCH 2013 COUNTERPARTY AND RATINGS									
Exposure £m	FUND				Fitch Ratings				
COUNTERPARTY	Aberdeen	Alliance Bernstein	In-House	£m	Long	Short	Sup-port	Sovereign	Sovereign Rating
CREDIT INDUST ET COMRCIAL	3.5	-	-	3.5	A+	F1+	1	FRANCE	AAA
SOCIETE GENERALE	-	1.0	-	1.0	A+	F1+	1	FRANCE	AAA
BANQUE NATIONAL DE PARIS	3.5	1.0	-	4.5	A+	F1+	1	FRANCE	AAA
DEUTSCHE BANK	3.5	1.0	-	4.5	A+	F1+	1	GERMANY	AAA
LANDESBK BADEN WERTMBG	-	1.0	-	1.0	A+	F1+	1	GERMANY	AAA
DZ BANK	3.5	-	-	3.5	A+	F1+	0	GERMANY	AAA
ABN AMRO BK	3.5	1.0	-	4.5	A+	F1+	1	NETHERLANDS	AAA
ING BK	3.4	1.0	-	4.4	A+	F1+	1	NETHERLANDS	AAA
RABOBANK	-	0.5	-	0.5	AA	F1+	0	NETHERLANDS	AAA
EUROPEAN INV BANK	7.0	6.6	-	13.6	AAA	F1+	0	SUPRANATIONAL	AAA
INT BK RECONST DEVT	3.5	6.8	-	10.3	AAA	F1+	0	SUPRANATIONAL	AAA
EUROPEAN BNK RECON DEV	3.4	-	-	3.4	AAA	F1+	1	SUPRANATIONAL	AAA
SVENSKA	-	0.5	-	0.5	AA-	F1+	1	SWEDEN	AAA
SKANDINAVISKA	-	1.0	-	1.0	A+	F1	1	SWEDEN	AAA
UBS	3.5	-	-	3.5	A	F1	1	SWITZERLAND	AAA
BARCLAYS BANK	5.0	-	-	5.0	A	F1	1	UK	AAA
LLOYDS TSB/BK SCOTLAND	3.5	-	15.0	18.5	A	F1	1	UK	AAA
NATIONWIDE BSOC	3.3	1.0	-	4.3	A+	F1	1	UK	AAA
RBS/NATWEST	-	-	61.7	61.7	A	F1	0	UK	AAA
UK TREASURY	-	26.8	-	26.8	AAA	F1+	1	UK	AAA
BNY MELLON	0.1	1.1	-	1.2	AA-	F1+		US	AAA
Total £m	50.2	50.3	76.7	177.2					

86. In February 2013 Moody's, the US rating firm, lowered the UK's rating by one notch to AA1. No change was made by Standard and Poor's, who reaffirmed it at AAA rating in April 2014. However Fitch on 19 April lowered it to AA+. The downgrade did

not trigger a significant rise in the cost of UK borrowing, which continues to be supported by central bank monetary easing.

87. The debt outstanding to fund past capital expenditure at the end of March 2013 stands at £562.5m and is all from the Public Works Loans Board (PWLB). No new loans were taken over the quarter. From April 2012 the loans are disaggregated between the HRA and the General Fund. £451m of the debt is attributable to the HRA, reflecting past investment in housing, and the remainder falls as General Fund debt. The years in which the loans fall for repayment is set out below and the council has access to PWLB and market borrowing to refinance maturing debt or replace internal funds (such as the ones used in the acquisition of 160 Tooley Street headquarters) with new loans should it be necessary. PWLB borrowing attracts a standard margin of 1% above gilts yields (the rates at which the UK government itself borrows at), but the council may also draw funds at a margin of 0.20% below standard rates, should it be prudent.



Community impact statement

88. This report monitors expenditure on council services, compared to the planned budget agreed in February 2012. 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
2012/13 Revenue monitoring / Quarter 3	160 Tooley Street	Vernon Smith 020 7525 7355 http://moderngov.southwark.gov.uk/documents/s35397/Report%20Revenue%20Monitoring%20Report%20Quarter%203%20201213%20including%20Treasury%20Management.pdf

APPENDICES

No.	Title
Appendix A	Budget movements to be approved and noted
Appendix B	Movements in reserves: extract from draft Statement of Accounts 2012/13

AUDIT TRAIL

Cabinet member	Cllr Richard Livingstone, Cabinet member for finance, resources and community safety	
Lead officer	Duncan Whitfield, Strategic Director of Finance and Corporate Services	
Report author	Jennifer Seeley, Finance & Resources	
Version	Final	
Dated	8 July 2013	
Key Decision	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments included**
Strategic Director of Communities, Law & Governance	No	No
Strategic Director of Finance and Corporate Services	Yes	Yes
Date final report sent to constitutional team		8 July 2013